HEALTH+

Helping people look and feel their best

Alliance Boots Annual Report 2010/11

Our performance in 2010/11

(for the year ended 31 March 2011)

Revenue

+15.1%

£20.2bn

£23.3 billion including share of associates and joint ventures

EBITDA

+10.8%

£1,300m

£1,442 million including share of associates and joint ventures

Trading profit

+14.2%

£1,051m

£1,164 million including share of associates and joint ventures

- Cash generated from operations £1,309 million
- Net borrowings reduced by £546 million
- Step change in international expansion of pharmaceutical wholesaling:
  – Controlling interest in Hedef Alliance acquired in July (Turkey, Egypt)
  – ANZAG majority ownership acquired in December (Germany, Romania, Lithuania)
- Internationalisation of product brands accelerating

	£million
Revenue	**20,218**
EBITDA[1]	**1,300**
Underlying depreciation and amortisation[2]	(249)
Trading profit[3]	**1,051**
Associates and joint ventures – share of underlying post tax earnings[4]	74
Underlying net finance costs[5]	(381)
Underlying tax charge[6]	(137)
Underlying profit[7]	**607**

A reconciliation of underlying profit to statutory profit for the year is set out below:

	£million
Underlying profit[7]	**607**
Amortisation of customer relationships and brands	(114)
Net exceptional items before tax[8]	36
Timing differences within net finance costs	(29)
Tax credit on items not in underlying profit	40
Exceptional tax credit[9]	72
Profit from continuing operations	**612**
Profit from discontinued operations	3
Profit for the year	**615**

1 EBITDA comprises trading profit before underlying depreciation and amortisation.
2 Underlying depreciation and amortisation excludes amortisation of customer relationships and brands and depreciation and amortisation within exceptional items.
3 Trading profit comprises profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures.
4 Associates and joint ventures – share of underlying post tax earnings comprises share of post tax earnings of associates and joint ventures before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.
5 Underlying net finance costs comprise net finance costs adjusted to exclude exceptional items and timing differences within net finance costs.
6 Underlying tax charge excludes tax on amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and exceptional tax.
7 Underlying profit excludes amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.
8 Net exceptional items before tax mainly comprised a net gain in relation to the closure of a number of defined benefit pension schemes offset by costs in relation to a restructuring programme in the UK part of the Health & Beauty Division and the second phase of the restructuring programme in the Pharmaceutical Wholesale Division.
9 Exceptional tax credit related to the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2011.

We are a leading international, pharmacy-led health and beauty group. Our focus is on helping people look and feel their best.

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What's inside

Overview

00 Our performance in 2010/11
02 Our Group at a glance
03 Our mission, purpose and values
04 Our business activities
06 Executive Chairman's statement
10 Group strategy and objectives
14 Our markets and business environment

Business review

18 Overview
22 Health & Beauty Division
28 Pharmaceutical Wholesale Division
34 Other activities
36 Financial review
42 Performance measures
43 Financial record
44 Risk management
46 Our people
47 Corporate social responsibility

Governance

50 Board of Directors
52 Board report on corporate governance
54 Board report on remuneration
57 Audit committee report

Consolidated financial statements

58 Directors' responsibilities statement
59 Statutory auditor's report
60 Group income statement
60 Group statement of comprehensive income
61 Group statement of financial position
62 Group statement of changes in equity
63 Group statement of cash flows
64 Notes to the consolidated financial statements

Additional information

110 Principal businesses, associates and joint ventures
113 Glossary of key terms

Our Group at a glance

Alliance Boots is a leading international, pharmacy-led health and beauty group delivering a range of products and services to customers.

Working in close partnership with manufacturers and pharmacists, we are committed to improving health in the local communities we serve and helping our customers and patients to look and feel their best.

Our focus is on growing our two core business activities:

- **Pharmacy-led health and beauty retailing**
- **Pharmaceutical wholesaling and distribution**

Over 115,500* employees

115,500+

Presence in over 25* countries

25+

Dispensing more than 250 million* items each year

250m+

Operating more than 3,280* health & beauty retail stores, of which just under 3,180* have a pharmacy

3,280+

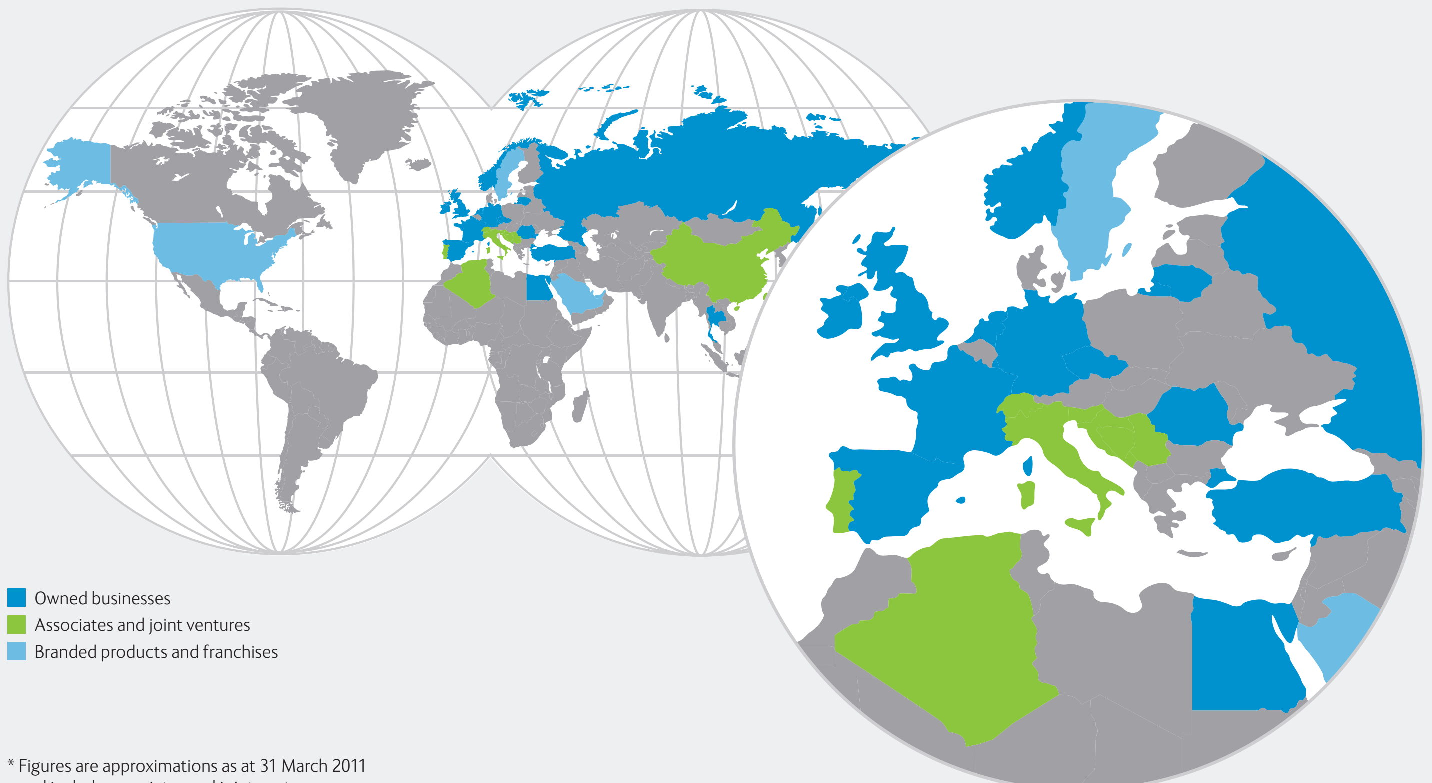
Delivering to over 160,000* pharmacies, doctors, health centres and hospitals

160,000+

Operating over 370* pharmaceutical wholesale distribution centres

370+

Worldwide



* Figures are approximations as at 31 March 2011 and include associates and joint ventures.

Our mission, purpose and values

Our mission

is to become the world's leading pharmacy-led health and beauty group. We seek to develop our core businesses of pharmacy-led health and beauty retailing and pharmaceutical wholesaling across the world and become a significant player in many major international markets.

Our purpose

is to deliver products and services that help people look and feel their best.

Our values

We believe in making a difference and are proud of the contribution we make to the wellbeing of the communities we serve. Our core values are:

Partnership

Includes respect, understanding and working together. We create and build value through partnerships and alliances, inside and outside the business. Together we can achieve more.

Trust

The essence of the way we do business. We are trusted because we deliver on our promises.

Service

We hold ourselves to high standards of care and service, for our customers and our people.

Entrepreneurship

We are innovators, seeking new challenges and having a winning spirit.

Simplicity

We are proud of being lean and efficient, uncomplicated and easy to do business with.

The executive team

From left to right:

Marco Pagni
Group Legal Counsel & Chief Administrative Officer

Alex Gourlay
Chief Executive, Health & Beauty Division

Stefano Pessina
Executive Chairman

Ornella Barra
Chief Executive, Pharmaceutical Wholesale Division

George Fairweather
Group Finance Director

Our business activities

Pharmacy-led health and beauty retailing

Alliance Boots, including our associates and joint ventures, has pharmacy-led health and beauty retail businesses in 11 countries, each focused on helping people look and feel their best.

Together with our associates and joint ventures, we operate more than 3,280 health and beauty retail stores, of which just under 3,180 have a pharmacy. In Europe we are the clear market leader in pharmacy with stores in the UK, Norway, the Republic of Ireland, The Netherlands, Lithuania and Russia. We also have pharmacies in Thailand and our associates and joint ventures operate pharmacies in Switzerland, China, Italy and Croatia. In addition, around 50 Boots branded stores operate in the Middle East and Sweden on a franchised basis.

Our stores are located in convenient locations and put the pharmacist at the heart of healthcare. Our pharmacists are well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities we serve.

Our principal retail brand in the Health & Beauty Division is Boots, which we trade under in the UK, the Republic of Ireland, Norway and Thailand and are continuing to trial in The Netherlands. The Boots offering is differentiated from that of competitors due to the product brands which we own and "only at Boots" exclusive products, together with our long established reputation for trust and customer care.

In addition, Boots Opticians has around 655 optical practices in the UK, of which around 190 operate on a franchised basis.

We recognise the special status of Boots as the UK's most trusted pharmacy brand and continue to enhance our position as a leading provider of healthcare, beauty advice and services in local communities. We do this through investment in existing stores, by expanding our store portfolio and enhancing our online offering.

Pharmaceutical wholesaling and distribution

Our pharmaceutical wholesale businesses, together with our associates and joint ventures, supply medicines, other healthcare products and related services to over 160,000 pharmacies, doctors, health centres and hospitals from over 370 distribution centres in 21 countries.

Our businesses provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. We also offer our customers innovative added-value services which help pharmacists develop their own businesses. We consistently deliver high standards of efficiency and effectiveness.

In addition to the wholesale of medicines and other healthcare products, we provide services to pharmaceutical manufacturers who are increasingly seeking to gain greater control over their product distribution while at the same time outsourcing non-core activities. These services include pre-wholesale and contract logistics, direct deliveries to pharmacies, and specialised medicine delivery including related home healthcare.

Scale is very important in pharmaceutical wholesaling. In addition to being the largest pharmaceutical wholesaler/distributor in Europe, Alliance Boots typically ranks as one of the top three in the individual countries in which we operate. In 2010/11 we became the majority shareholder in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, and we significantly strengthened our position in Germany, Europe's largest pharmaceutical market, following the acquisition of ANZAG.

We continually seek to grow our wholesale and related distribution activities organically and through acquisitions, including investments in associates and joint ventures. These acquisitions are either in current or complementary business areas in countries in which we already operate or in new geographical markets which are typically large, fast growing and where we see the potential for market consolidation.

* Figures are approximations as at 31 March 2011 and include associates and joint ventures.

Our product brands

In our Health & Beauty Division, we have highly regarded and long established product brands such as No7, Soltan and Botanics. Our development, packaging and product marketing capabilities are very important.

We have recently launched a major new healthcare brand, Boots Pharmaceuticals, bringing together 160 years of Boots expertise in developing trusted healthcare products for our customers. Boots Pharmaceuticals has the widest range of healthcare products of any brand in the UK, including therapeutically proven medicines, natural alternatives, vitamins and first aid products.

The Boots Laboratories Serum7 skincare range was successfully launched in Italy, in partnership with Procter & Gamble, and in Spain. It is now sold in four European countries. In addition, we have recently launched Boots Laboratories Solei SP, a new suncare brand, which we are selling to independent pharmacies in France, Italy, Portugal and Spain and we are increasing sales of No7 to third party retailers and distributors in countries where we do not have a retail presence.

We have entered into long-term partnerships with a select number of third party brand owners to sell their products in Boots stores on an exclusive basis, sharing in the future brand equity. We also continue to manufacture a significant proportion of the own brand and exclusive products that we sell.

Almus, our range of generic medicines and Alvita, our range of patient care products, are sold in five countries through our Pharmaceutical Wholesale Division.

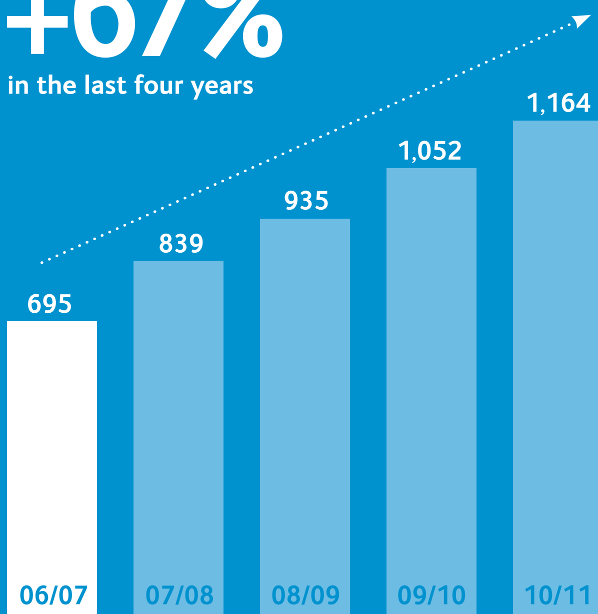
Executive Chairman's statement

"We have performed strongly through a combination of organic growth and the two major acquisitions we made during the year."

Stefano Pessina
Executive Chairman

Trading profit
(including share of trading profit of associates and joint ventures)
£million

+67%
in the last four years



A unique Group with outstanding potential

Introduction

Welcome to the fourth annual report of Alliance Boots as a privately owned healthcare company. This provides you with a comprehensive review of our Group's activities and financial results for the year ended 31 March 2011.

I am pleased to report that Alliance Boots continues to perform strongly, delivering a double digit growth in trading profit while at the same time generating a very strong operating cash flow and substantially reducing net borrowings. This performance, which has been achieved through a combination of organic growth and acquisitions, demonstrates the strength of the Group and is particularly encouraging given that the global economy remains fragile.

In 2010/11 we have made great progress across the Group to accelerate our growth plans, including acquiring controlling interests in both Hedef Alliance and ANZAG, our Turkish and German associates. In recent years we have made substantial capital investments, particularly in our Boots stores and supporting infrastructure. As a result, we have a strong platform for continuing growth in our core businesses and on which to build our next phase of growth, focused on international expansion.

All of this could not have been achieved without the dedication of our people. Their efforts throughout the year enabled us to achieve a strong financial performance while at the same time delivering consistently high levels of customer service. On behalf of the Board, I would like to take this opportunity to thank them for their excellent work and continued support.

We seek to grow through a combination of organic performance and acquisitions, the balance of which varies year to year. In 2010/11, we have been particularly acquisitive. Our success comes from having a clear vision, divisional and business teams with strong operational skills who put customers at the heart of all we do, combined with a corporate team skilled in acquiring and integrating businesses and in managing our finances. In all cases we have well defined performance measures and strong financial disciplines.

Health & Beauty Division

The Health & Beauty Division delivered a good performance despite difficult retail markets and regulatory pressures impacting dispensing profitability. This success is due to the passion and commitment of our people under the leadership of Alex Gourlay and his management teams. Together they have ensured that we deliver excellent customer care while further developing our customer offer and executing our comprehensive business efficiency programme.

Pharmaceutical Wholesale Division

Strong revenue and profit growth in the Pharmaceutical Wholesale Division was achieved through a combination of organic growth and the two major acquisitions made during the year, the full year benefits of which we will see in 2011/12. Market conditions continued to be challenging for many of our businesses, mainly due to regulatory changes, competition and changes in the way prescription medicines are supplied to pharmacies. Russia was particularly difficult. Organic profit growth came primarily from Ornella Barra and her management teams adapting our business model to meet the evolving needs of governments, pharmaceutical manufacturers and pharmacy customers, and from efficiencies from our ongoing business improvement programme.

Growth through acquisitions

In July 2010, we became the majority shareholder in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, and in December we acquired majority ownership of ANZAG, one of the largest wholesalers in Germany. Together these businesses, which were both formerly associates, add over £6 billion of revenue to our Pharmaceutical Wholesale Division on an annualised basis, making us the clear market leader in Europe.

We also transferred ownership of a 51% stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. This was done because of the unique structure and financing of the Italian pharmaceutical wholesale market.

Internationalising our product brands

We are making good progress with internationalising our product brands, creating a third dimension to our long-term growth plans. During the year the Boots Laboratories skincare range was successfully launched in Italy in partnership with Procter & Gamble and in Spain and the range is now being sold in four European countries. This partnership combines Procter & Gamble's salesforce capacity and capabilities to distribute and promote the brand with the strength and heritage of the Boots brand. We hope to develop this in the coming years and we are fully committed to further expanding our product brand presence in key markets across multiple continents.

Corporate social responsibility

We remain as committed as ever to maintaining our long tradition of excellence in corporate social responsibility, both in terms of performance and reporting. Our activities, which are in line with our core values, support our objective of building a sustainable world-leading group. As in previous years, we will publish our detailed Corporate Social Responsibility Report in September and we plan for the first time to include an independent assurance report issued by KPMG.

Executive team

Following Andy Hornby's decision to stand down from the Board in March 2011, our highly experienced executive team is continuing to manage our Divisions and corporate activities to drive future performance.

Outlook

Looking to the year ahead, we are planning for consumer demand to be subdued and expect governments to continue to seek ways to contain growth in healthcare expenditure. In spite of this, we are confident about our future prospects both in the short and longer term. This comes from having a clear strategy, the right values, strong financial disciplines and dedicated teams throughout the Group focused at all times on our customers.

We are planning to continue to grow through a combination of organic growth, new partnerships and acquisitions while at the same time reducing net borrowings. We have a strong operating cash flow, secure long term funding arrangements and are continuing to benefit from relatively low interest rates.

We are a unique Group with market leading positions and outstanding potential as a focused healthcare company. As I have said on many occasions, our name, "Alliance", reflects our belief in the benefits of partnerships in the development and growth of the Group. It also demonstrates our commitment to delivering the best for our customers, our people, and the communities we serve. This approach will be the cornerstone of our future success.

Stefano Pessina
Executive Chairman
12 May 2011

Communities in action

"We can make a difference in our community."

In September 2010, we launched a ground-breaking new three-year partnership with Macmillan Cancer Support, which aims to provide the two million people living with cancer in the UK and their family and friends increased access to the information and support they need – when they need it, where they need it.

Together Macmillan and Boots UK are delivering more ways to access information about living with cancer to the high street, in local communities and online.

Macmillan aims to train several thousand Boots pharmacists, dispensers and healthcare assistants on the issues surrounding cancer, building on the specialist training that Boots colleagues already receive to enable them to offer more comprehensive healthcare advice on the high street and in local communities.

Our Boots colleagues are also making a commitment to raising funds for Macmillan with the company-wide fundraising initiative "Miles for Macmillan". Boots employees all over the UK are aiming to clock up 290,000 miles – 290,000 is the number of people being diagnosed with cancer every year in the UK – in a variety of ways; cycling, rowing, jogging and even stilt walking!

More recently, in February we held "Cancertalk Week" in association with Macmillan Cancer Support, a new community initiative to encourage people up and down the country to talk about the disease and, at the same time, gain more access to information about cancer and living with cancer.

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Helping our customers look and feel their best

Group strategy and objectives

The Group's strategy is to focus on its two core business activities of pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution, while increasingly developing and internationalising our product brands to create a third dimension.

Our strategy includes:

- growing our core businesses in existing markets
- continuing to deliver productivity improvements and other cost savings
- pursuing growth opportunities in selective new high growth markets
- launching our product brands in new markets.

This strategy is underpinned by our continued focus on patient/customer needs and service, selective partnerships and our strong financial disciplines.

Pharmacy-led health and beauty retailing

Boots is the largest pharmacy chain in Europe with an excellent reputation for differentiated health and beauty products and customer care.

Our strategy is to develop Boots into the world's leading pharmacy-led health and beauty retail brand, focused on helping people look and feel their best.

The key steps we are taking in the UK to execute our strategy are as follows:

Making Boots more convenient and accessible for our customers

We opened 56 new Boots stores during the year of which 37 were relocations, and we refitted a further 119 stores. The trial with Waitrose to sell selective product ranges in each other's stores is fully underway with 12 Boots stores now selling the Waitrose lunchtime food offering and a further seven stores incorporating a larger range of lunchtime and convenience food. In addition, Waitrose is selling Boots health and beauty products in 13 of their shops.

The rebranding of Dollond & Aitchison optical practices as Boots Opticians was largely completed during the year with over 205 practices rebranded by the year end.

Developing our people to be at their very best for our customers

In addition to improving the product knowledge of our people through regular e-learning sessions, we are continuing to run a comprehensive leadership development programme and a Boots commercial academy, both aimed at ensuring that we have the best people supporting and developing our customer offer. We continue to recruit and train a substantial number of graduate pharmacists.

Improving our customers' in-store shopping experience

This is being partly achieved by operating efficient walk-in prescription services staffed by friendly, knowledgeable and accessible pharmacists, and faster till service. Our customers' experiences have also been enhanced by better in-store product availability following the investment in a more efficient logistics network, refitted stores, and redesigned store layouts to make it easier for customers to find what they want. We are also differentiating our retail formats and product offering to better meet the needs of our customers.

Creating a compelling multi-channel health and wellbeing consumer offering

We continue to develop boots.com to make it easier for our customers to use. "Order-on-line and collect-in-store" is now available in nearly all of our 2,500 Boots stores across the UK, providing customers with convenient access to the extended Boots product range, including the full seasonal gift ranges. We are also continuing to develop BootsWebMD, our consumer health and wellness information portal launched in 2009/10 in partnership with WebMD, the leading US healthcare portal, with visitor numbers increasing significantly year on year.

Increasingly differentiating our product offering

We continue to launch new health and beauty product brands, while at the same time, enhancing our long established leading consumer product brands such as No7, primarily through new product development. During the year, we successfully launched Boots Pharmaceuticals, a new healthcare product brand bringing together 160 years of Boots expertise in developing trusted healthcare products for our customers. Boots Pharmaceuticals has the widest range of healthcare products of any brand in the UK. By the year end this new range had been expanded to cover over 400 different products, including therapeutically proven medicines, natural alternatives, vitamins and first aid products. In addition, we signed a number of new brand partnerships to develop and manufacture products to be sold exclusively at Boots, including the Champneys Spa brand.

Continuing to provide customers with excellent value

We provide customers with excellent value by providing trusted ranges of Boots branded products, executing strong promotional offers and rewarding customer loyalty with Boots Advantage Card points.

The key steps we are taking in our international health and beauty markets to execute our strategy are:

Opening new stores in markets where Boots is already well established

This includes the Republic of Ireland, Thailand and Norway.

Developing country specific Boots branded trading formats to meet local needs

In December, we completed the roll-out of the 'Boots apotek' pharmacy concept in Norway and also during the year extended our test of the 'Boots apotheek' pharmacy concept in The Netherlands. Just before the year end, the first 'Boots apotek' pharmacy opened in Sweden on a franchise basis. We continue to evaluate franchise opportunities in other countries. In addition, we will consider, over time, establishing Boots pharmacy chains in new countries where legislation permits and it makes economic sense to do so.

Pharmaceutical wholesaling and distribution

Alliance Healthcare, Europe's largest pharmaceutical wholesaler, has an excellent reputation for service and reliability.

Our strategy for Alliance Healthcare is to be the world's best wholesaler and distributor of pharmaceutical products, working in partnership to provide added-value services for pharmacy and manufacturer customers.

The key steps we are taking to execute our strategy include:

Ensuring that we continue to deliver an excellent core service to all our customers

Typically we deliver prescription medicines to pharmacies at least twice a day on a just-in-time basis to meet patients' needs. In-stock availability, accuracy of picking and reliable van deliveries within set time periods are essential to achieving this consistently.

Evolving our business model to meet changing demands from manufacturer and pharmacy customers for new services

We aim to do this through achieving preferred status for selective wholesaler contracts, winning direct-to-pharmacy distribution contracts, expanding our pre-wholesale and contract logistics services, developing our contract salesforces, and developing innovative added-value services such as the Alphega Pharmacy concept. We continue to develop other new solutions to meet customers' evolving needs.

Increasing efficiency and driving down costs

We achieve this by growing market share where it is desirable to do so, completing our Division-wide business improvement programme and acquiring businesses to increase scale.

Differentiating our product offering

We are achieving this through a series of initiatives which include the development of Almus, our exclusive range of generic medicines, and the extension of Alvita, our branded patient care product range. In addition, during the year we increased the number of European countries in which our Boots Laboratories skincare range is sold to independent pharmacies.

Extending our capabilities into high growth specialty medicine/homecare markets and entering new geographical markets

We seek to enter new geographical markets where stable regulatory environments, large populations, growing healthcare expenditure, scope for wholesaler consolidation and the right management can be found. The acquisitions of Hedef Alliance and ANZAG during the year further expand our international presence in key geographical markets and provide a further platform for future growth.

Strategy in action

"Expanding our international pharmaceutical wholesale network."

We are now the largest pharmaceutical wholesaler in Europe.

In 2010/11 we expanded our pharmaceutical wholesale network following the acquisition of majority ownership of Hedef Alliance and Andreae-Noris Zahn AG ("ANZAG").

Hedef Alliance is one of the largest pharmaceutical wholesalers in Turkey with consolidated revenue of around £2.4 billion in 2009/10 (of which £1.9 billion was in Turkey and £0.5 billion in Egypt).

ANZAG is the one of the three largest pharmaceutical wholesalers in Germany with consolidated revenues of around £3.7 billion for its financial year ended 31 August 2010.

These acquisitions help us deliver our growth plans and we expect them to make a significant contribution to future profitability.

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Helping our customers look and feel their best

Strategy in action

"I love shopping at Boots."

We are making good progress in our international health and beauty markets to develop the Boots brand.

During the year, our Norwegian business completed the rebranding process to "Boots apotek". This new pharmacy concept was first introduced in Norway in January 2008.

We have recently launched Boots as a strong and trusted pharmacy brand in Sweden, in conjunction with Farmacevtföretagarna, an organisation formed by the Swedish Pharmaceutical Association. The first "Boots apotek" branded store was opened in Stockholm by a franchisee in March and further openings have taken place since the year end. In The Netherlands we also now have 13 stores branded "Boots apotheek".

At the year end Boots Thailand had 182 stores throughout the country, offering a significant number of Boots branded products across ranges such as No7, Botanics and Soltan. Our franchise partner, M.H. Alshaya Co, recently opened the 50th store in the Middle East and there are now Boots branded franchises in Kuwait, United Arab Emirates, Qatar, Bahrain and the Kingdom of Saudi Arabia.

In addition we continue to open Boots stores in the Republic of Ireland with more openings planned for 2011/12.

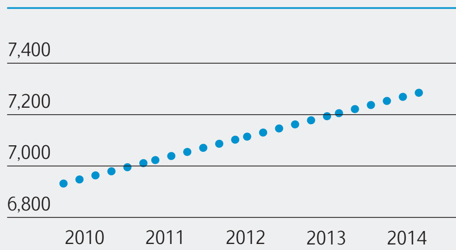
Our markets and business environment

Alliance Boots operates in highly attractive markets with potential for significant long-term growth.

We expect increasing life expectancy and product innovation to continue to drive demand for prescription medicines and related healthcare services. At the same time, we believe that a growing customer focus on personal wellbeing will drive demand for health and beauty consumer products and related services.

World population forecasts*

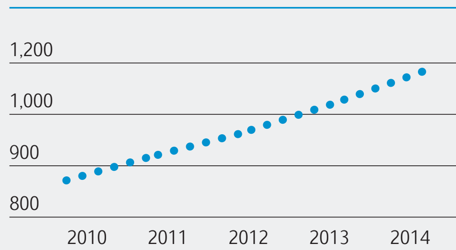
Population (millions)



Source: United Nations, World Population Prospects: The 2008 Revision (May 2009)
* Medium fertility variant

World pharmaceutical market forecasts*

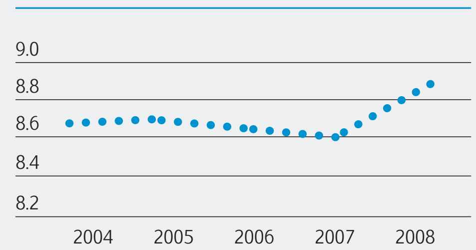
Value (US$ billions)



Source: IMS Market Prognosis Global 2010-2014
* Constant exchange rates based on average rates for quarter 4 2009 as recorded by IMS Health

Healthcare expenditure as a percentage of GDP

%



Source: OECD Health Data

Key trends and market developments

The key trends and market developments we expect to see over the coming years are as follows:

New and innovative prescription medicines will continue to be developed

These specifically include special medicines which may require special handling (for example, temperature control) or administration to patients (for example, injections by nurses).

Continuing price cuts on established branded prescription medicines

Governments benchmark prices in similar countries and look at the cost effectiveness of alternative branded medicines, cutting reimbursement prices when they identify price differentials or lower cost alternatives. Accordingly, we expect continuing price cuts on established branded prescription medicines over time.

An increasing proportion of prescriptions to be lower cost generic medicines

Governments are implementing measures to encourage doctors to prescribe more generic medicines in order to reduce costs. Our Pharmaceutical Wholesale Division uses its scale and international sourcing capabilities to grow market share. We can secure lower prices and better cash margins on generics in a way which legislation typically does not permit for branded products, making us well placed to take advantage of this continuing trend.

An increasing number of medicines to be available for retail purchase

Governments are increasing the number of medicines available for retail purchase to encourage consumers to pay for medicines for minor ailments, rather than going to their doctor for a prescription. With its healthcare expertise, Boots is well placed to secure a large share of this new market and has made significant progress this year in developing better value product ranges which customers trust as substitutes for leading brands.

More healthcare services to be provided in the community

Governments are seeking to provide more healthcare services in the community in a cost effective way. Pharmacy is well placed to provide many services, such as medicine check-ups, weight management programmes, smoking cessation advice and flu vaccinations. In addition, we also expect the market for homecare services to grow rapidly.

Deregulation of pharmacy ownership to happen over time in more European countries

In the long term, we believe that cost pressures on governments are likely to lead to deregulation of pharmacy ownership in more European countries, to allow multiple ownership alongside wholesale. The timing of this continues to remain highly uncertain and appears to be further in the future in many countries than was our historic view, although the Swedish pharmacy market was deregulated in 2010.

Latent consumer demand for beauty products with proven pharmaceutical benefits

The huge success of No7 Protect & Perfect Intense Beauty Serum highlights the latent consumer demand for beauty products which are validated by scientific evidence. We, along with certain other leading manufacturers of beauty products, continue to focus our product development activities in this select area of the beauty marketplace.

Branded pharmaceutical manufacturers to seek further control over their distribution channels

An increasing number of branded pharmaceutical manufacturers are seeking further efficiencies and control by switching from selling via multiple pharmaceutical wholesalers to either selling direct to pharmacies (using relatively few distributors, such as Alliance Healthcare, to deliver the product, invoice customers and collect payments), or selling via a select number of national wholesalers such as Alliance Healthcare.

Further consolidation of the pharmaceutical wholesaling and distribution sector

In pharmaceutical wholesaling, we expect consolidation amongst wholesalers over time as regulatory and market changes put increasing pressure on the industry.

A step change in international expansion

Acquisitions made during the year delivered combined annualised revenues of over £6 billion.

Expanding our presence in large developing geographical markets

HEDEF ALLIANCE

£2.4bn

Hedef Alliance reported consolidated revenues of around £2.4 billion in 2009/10.

In July 2010, Alliance Boots became the majority shareholder in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey. We have a longstanding partnership with Hedef Alliance and previously held a 50% associate interest in the company.

Turkey, with a growing population of over 72 million, is one of the fifteen largest pharmaceutical markets in the world.

In addition to Turkey, Hedef Alliance has a controlling stake in United Company of Pharmacists ("UCP") in Egypt and an associate in Algeria. Hedef Alliance had consolidated revenues of around £2.4 billion in 2009/10 (of which £1.9 billion was in Turkey and £0.5 billion in Egypt).

This acquisition is in line with our strategy of investing internationally in strong companies in large and growing markets, and provides us with an excellent platform for future growth in the region.

£3.7bn

ANZAG reported consolidated revenues of around £3.7 billion for 2010.

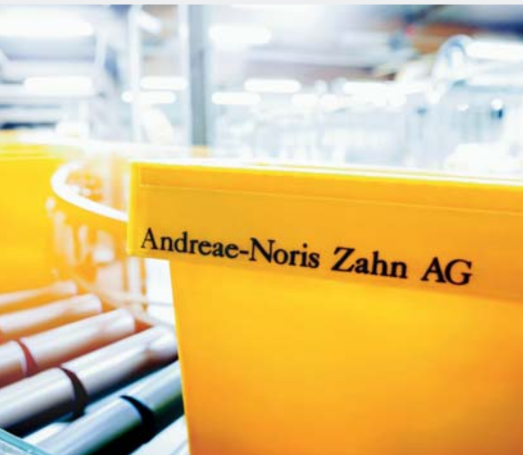
Further strengthening our European wholesale network

In December 2010, Alliance Boots acquired majority ownership of Andreae-Noris Zahn AG ("ANZAG"), one of the three largest pharmaceutical wholesalers in Germany. We previously held a 29.99% associate interest in the company and now own 81.88%.

Germany is the largest pharmaceutical wholesale market in Europe and ranks third largest globally.

In addition to Germany, ANZAG has pharmaceutical wholesale businesses in Lithuania and Romania and an associate in Croatia which also operates in Bosnia Herzegovina, Serbia and Slovenia. ANZAG reported consolidated revenues of around £3.7 billion for its financial year ended 31 August 2010.

This acquisition positions Alliance Boots as the pre-eminent pharmaceutical wholesaler across Europe, enabling us to further strengthen our partnerships with manufacturers and enhance our offering to independent pharmacists.



Internationalisation of our product brands

The Boots Laboratories Serum7 skincare range, with its clinically proven anti-ageing benefits, was successfully launched in Spain and Italy during the year and is now sold by pharmacies in four European countries.

For the Italian market, we are delighted to be working in partnership with Procter & Gamble to leverage their salesforce capacity and capabilities to distribute and promote the Boots Laboratories brand to pharmacies combined with the strength and heritage of the Boots brand.

In addition, we are building sales of No7 in the United States, which won a number of awards in the US edition of Good Housekeeping magazine. We have recently launched the No7 skincare range in Ulta, a US beauty chain, while continuing to sell No7 and other Boots products in over 1,700 Target stores. We have also recently launched Boots Laboratories Solei SP, a new suncare brand, which we are selling to independent pharmacies in France, Italy, Portugal and Spain.

Business review

Overview

In 2010/11 the Group has again reported strong growth in revenue, EBIDTA and trading profit.

Revenue

+15.1%

Revenue up 15.1% to £20.2 billion – £23.3 billion including share of associates and joint ventures

EBITDA

+10.8%

EBITDA up 10.8% to £1,300 million – £1,442 million including share of associates and joint ventures

Trading profit

+14.2%

Trading profit up 14.2% to £1,051 million – £1,164 million including share of associates and joint ventures

Performance by Division

for the year ended 31 March 2011

			Year on year growth	
Continuing operations	Revenue £million	Trading profit £million	Revenue	Trading profit
Health & Beauty	7,626	767	+1.7%	+5.5%
Pharmaceutical Wholesale	13,942	320	+23.6%	+36.2%
Contract Manufacturing & Corporate Costs	253	(36)	+0.4%	
Intra-group	(1,603)			
Group[1]	**20,218**	**1,051**	**+15.1%**	**+14.2%**
Share of revenue and trading profit of associates and joint ventures	3,126	113	-13.0%	-14.4%
	23,344	**1,164**	**+10.3%**	**+10.6%**

1 Trading profit comprises profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures.

In this review, the Health & Beauty Division results are further split between the UK and International businesses, given the relative size of our UK activities.

A list of principal businesses, associates and joint ventures and a glossary of key terms are included on pages 110 to 113.

Overview

In 2010/11 the Group performed strongly, delivering double digit growth in EBITDA and trading profit, through a combination of organic growth and acquisitions. This, together with tight management of working capital, produced a strong operating cash flow, which we used to expand the international scope of our pharmaceutical wholesaling activities through acquisitions, while at the same time continuing to invest in our core operations and reducing net borrowings.

Financial highlights

Revenue increased year on year by 15.1% to £20,218 million. Trading profit increased by 14.2% to £1,051 million and EBITDA on the same basis by 10.8% to £1,300 million. On a constant currency basis, revenue increased by 16.6%, an increase of 0.4% on a like for like basis.

Revenue, including our share of revenue of associates and joint ventures (which for Hedef Alliance and ANZAG covers the period up until we acquired majority ownership), increased by 10.3% to £23,344 million. On the same basis, EBITDA increased by 8.3% to £1,442 million and trading profit by 10.6% to £1,164 million. Cash generated from operations was strong at £1,309 million. During the year we spent £253 million on capital expenditure, largely on our retail stores, logistics and information technology projects. In addition we invested £344 million of cash on acquisitions. Net borrowings at the year end were £7,843 million, a year on year reduction of £546 million, and shareholders' equity was £4,784 million.

Our development

We have a strong focus on corporate development in support of our strategy to enter new geographical markets and to expand our presence in existing markets through acquisitions and strategic partnerships.

In July, we became the majority shareholder in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, having previously had a 50% associate interest for many years. Following the acquisition of a further 10% stake in February 2011, we owned 70% at the year end, and since then we have increased this to 80%. Hedef Alliance also has a controlling 50% stake in United Company of Pharmacists ("UCP"), the leading pharmaceutical wholesaler in Egypt, and an associate interest in Hydra Pharm, the largest pharmaceutical wholesaler in Algeria.

In July, we also transferred ownership of a 51% stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. This was done because of the unique structure and financing of the Italian pharmaceutical wholesale market. The cash consideration was in line with both book and fair value. We now account for the remaining 49% stake as an associate.

In December, we and our shareholders completed the acquisition of a majority stake in our associate Andreae-Noris Zahn AG ("ANZAG"). Following the completion of the voluntary tender offer for the remaining shares we now own 81.88% of ANZAG. ANZAG is one of the three largest pharmaceutical wholesalers in Germany, Europe's largest pharmaceutical market. In addition, ANZAG has pharmaceutical wholesale businesses in Lithuania and Romania and an associate in Croatia, which also operates in Bosnia Herzegovina, Serbia and Slovenia.

Our strategy to internationalise our product brands continues to move at pace. The Boots Laboratories Serum7 skincare range has now been successfully launched in Italy, in partnership with Procter & Gamble, and in Spain. It is now sold in four European countries. In addition, we have recently launched Boots Laboratories Solei SP, a new suncare brand, which we are selling to independent pharmacies in France, Italy, Portugal and Spain and we are increasing sales of No7 to third party retailers and distributors in countries where we do not have a retail presence.

Healthcare in action

"My pharmacy helps me and my family stay healthy by providing a wide range of services."

We all know it's important to stay healthy, but it's hard to look after ourselves as well as we should. We often don't have the time, the understanding or the resources.

Boots continues to launch a range of innovative ideas, programmes, products, partnerships and services as part of our commitment to making high quality healthcare more available and accessible. In the UK, these include:

Medicine Check-Ups – a consultation service (also known as Medicine Use Review) available in pharmacies in England and Wales for patients to discuss and better understand their medication, how it should be used and any problems it may cause.

BootsWebMD – our consumer health and wellness information portal.

Doctors' surgeries – Boots has 13 doctors' surgeries located in stores and is currently piloting two nurse-led clinics in Nottingham and Milton Keynes.

NHS Health Checks – working with Primary Care Trusts to support the Government's healthcare initiative, selected larger Boots stores are able to carry out NHS Health Checks including a lifestyle assessment, body mass index check and cholesterol and blood pressure management.

NHS Stop Smoking Service – Boots is working locally with doctors and health services to help people quit smoking.

NHS Eye Clinic – bringing together local doctors and consultant ophthalmologists in partnership with Boots Opticians to offer patients a range of NHS services for eye problems. The scheme, launched in Watford, is an example of an innovative practice-based commissioning initiative.

In addition to the work we are doing at Boots, our team at Alliance Healthcare provides their customers with many ways to stay healthy. In the UK, for example:

Patient focused services – Alliance Healthcare continues to be involved in the development of patient focused services through community pharmacy.

Webprescriptions – Alliance Healthcare has launched an online remote prescribing service through independent pharmacy. This allows patients to access a range of prescription only medicines following clinical assessments online by UK registered doctors.

Weight management – Alliance Healthcare continues to support the anti-obesity agenda by positioning its Weight Management Service for Primary Care commissioning through pharmacy.

About this pharmacy
HEALTH+
Helping our customers look and feel their best

Health & Beauty Division

Alex Gourlay
Chief Executive,
Health & Beauty Division

Our aim is to make Boots a leading global health and beauty brand. Through innovative products, expert medical advice and great customer service we help people live healthier lives.

Health & Beauty revenue

+1.7%

Health & Beauty trading profit

+5.5%

Performance by business

for the year ended 31 March 2011

Continuing operations	Total £million	Year on year growth: Reported	Year on year growth: Constant currency	Year on year growth: Like for like
Revenue				
UK:				
Boots UK	6,392	+1.1%	+1.1%	+0.5%
Boots Opticians	329	+2.8%	+2.8%	-2.4%
	6,721	**+1.2%**	**+1.2%**	**+0.4%**
International:				
Norway	386	+3.5%	+0.5%	-0.6%
Republic of Ireland	227	-3.4%	+0.6%	-3.0%
The Netherlands	164	-5.7%	-1.8%	-1.8%
Thailand	76	+11.8%	+0.5%	-1.3%
Other	52			
	905	**+6.1%**	**+5.9%**	**-1.7%**
	7,626	**+1.7%**	**+1.7%**	**+0.1%**
Trading profit				
UK	713	+5.3%	+5.3%	
International	54	+8.0%	+7.8%	
	767	**+5.5%**	**+5.5%**	
Trading margin				
UK	10.6%	+0.4pp	+0.4pp	
International	6.0%	+0.1pp	+0.1pp	
	10.1%	**+0.4pp**	**+0.4pp**	

In our Health & Beauty Division we delivered good growth in trading profit, despite difficult retail markets and regulatory pressures impacting dispensing profitability. We attribute this success to the passion and commitment of our people.

This has enabled us to deliver excellent customer care, initiate a three-year programme in the UK to further improve efficiency, continue to invest in our stores and develop and launch exciting new products.

Revenue increased year on year by 1.7% to £7,626 million, trading profit increased by 5.5% to £767 million and trading margin increased by 0.4 percentage points to 10.1%. On a constant currency basis revenue increased by the same amount in total, up 0.1% on a like for like basis, and total trading profit increased by 5.5%.

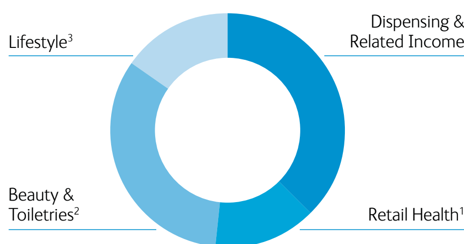
Health & Beauty Division – UK

In the UK, total revenue increased year on year by 1.2% to £6,721 million, like for like revenue increasing by 0.4%. Trading profit increased by 5.3% to £713 million and trading margin by 0.4 percentage points to 10.6%.

Boots UK performed well throughout the year, including the important Christmas period, growing both revenue and trading margin. Retail revenue increased by 1.2% on a like for like basis (including VAT).

Boots UK revenue by product category

for the year ended 31 March 2011



Continuing operations	£million	Year on year growth[4]
Dispensing & Related Income	**2,408**	**+2.4%**
Retail:		
Retail Health[1]	913	+0.2%
Beauty & Toiletries[2]	2,108	+1.0%
Lifestyle[3]	963	-0.8%
	3,984	**+0.3%**
	6,392	**+1.1%**

1 Retail Health comprises sales of non-prescription medicines and other health related products.
2 Beauty & Toiletries comprises the cosmetics & fragrances, accessories and toiletries sub-categories.
3 Lifestyle comprises the baby, nutrition, photography, electrical, seasonal and other lifestyle sub-categories, including miscellaneous sales.
4 Prior year figures have been restated to reflect certain category reclassifications.

Dispensing and Related Income increased by 2.4%. This was due to growth in dispensing volumes which was partially offset by lower average revenue per prescription (mainly as a result of lower generic reimbursement prices) and robust growth in Related Income. Total dispensing volumes increased year on year to 220 million items, up 3.6% on a like for like basis, our growth being particularly strong in the domiciliary dosage (patient specific packs) category and from prescriptions collected on behalf of patients from doctors' practices. Profit growth continued to be held back by lower reimbursement prices on generic medicines.

Related Income from pharmacy services, which currently comes primarily from Medicine Check-ups and other locally commissioned pharmacy services, whilst still relatively modest, increased year on year by nearly 6%. Our pharmacists in England and Wales carried out over 735,000 Medicine Check-ups during the year, a year on year increase of around 15%. We have a market leading position in the provision of such services with more than 80% of our pharmacies incorporating private consultation facilities.

As the leading operator of retail pharmacies in the UK, we remain committed to making high quality healthcare more available and accessible. During the year we opened another two doctors' surgeries operating in Boots stores, bringing the total to 13, and plan to increase the number of such surgeries over the coming years. In addition we opened nurse-led clinics in two stores. Boots Employee Wellbeing Service – our corporate health programme that combines a web-based health assessment with a range of local pharmacy services such as smoking cessation, cholesterol testing and blood pressure monitoring, expanded during the year with a significant number of employees of our launch partner, British Gas, completing a health assessment. BootsWebMD, our consumer health and wellness information portal created in partnership with WebMD the leading US provider of healthcare services on the web, continued to significantly increase its number of site visitors and is now ranked as one of the top health and medical websites in the UK.

Health & Beauty Division continued

Revenue in the Retail Health category, where we are the market leader, increased by 0.2% to £913 million. Sales of positive healthcare products, such as vitamins, increased year on year, which was partially offset by lower sales of flu related non-prescription medicines and anti-viral products. Gross margin increased due to improved product mix. We recently launched a major new healthcare brand, Boots Pharmaceuticals, bringing together 160 years of Boots expertise in developing trusted healthcare products for our customers. Boots Pharmaceuticals has the widest range of healthcare products of any brand in the UK, including therapeutically proven medicines, natural alternatives, vitamins and first aid products.

Revenue in the Beauty & Toiletries category, where we have leading market positions and exclusive product brands, increased by 1.0% to £2,108 million, sales of fragrances, accessories and toiletries all increasing year on year. Cosmetics sales were slightly lower year on year, reflecting a challenging prior year comparable that included the very successful launch of No7 Protect & Perfect Intense Beauty Serum.

We continued to invest in new product development for No7 with the launch of a number of new products, including No7 Protect & Perfect Intense Day Cream with 5-star rated UVA protection and SPF15.

In the toiletries sub-category, sales growth was mainly in hair and suncare products, the latter starting to benefit from our recent relaunch of our Soltan range.

Revenue in the Lifestyle category decreased by 0.8% to £963 million, reflecting the continuing decline in the photographic market and lower sales of baby products due to strong competition from supermarkets. This was partially offset by growth in the electrical, nutrition and seasonal sub-categories. In September, in partnership with Mothercare, we successfully launched "mini club", a new clothing and accessories brand for babies and children aged 0-6 years, which is being sold in around 380 Boots stores.

The business performed well during the key Christmas selling period, despite all the disruption from the weather, assisted by a strong customer offer, attractive promotions, record customer care and our highly acclaimed "Here come the girls" advertising campaign which further evolved this year.

Our own product brands, such as No7, Boots Pharmaceuticals, Soltan, Botanics and 17, together with our exclusive ranges, continue to enable us to materially differentiate our retail offering from that of our competitors and are very important drivers of revenue and margin. In addition to the launch of Boots Pharmaceuticals and the new No7 product ranges, other new developments included the recently launched new Champneys range of spa facial and body products which are exclusive to Boots.

Our partnership with Waitrose was extended during the period. At the year end 12 Boots stores were selling a combined Boots and Waitrose lunchtime food offering and a further seven stores incorporated a larger range of lunchtime and convenience food, including the Essential Waitrose range. In addition, Waitrose is selling Boots health and beauty products in 13 of its shops. Initial results from these trials are encouraging. This partnership supports our objective of making Boots products more accessible, while introducing a broader range of food products to give customers even more reasons to shop at Boots.

We have continued to increase the number of Boots stores where customers can collect goods ordered on our boots.com website. "Order-on-line and collect-in-store" is now available in nearly all of our 2,500 Boots stores across the UK, providing customers with convenient access to the extended Boots product range, including the full seasonal gift offering. The proportion of orders collected this way rose substantially to over 40% for the year. We continue to expand what boots.com sells, launching extended health related product ranges such as mobility and daily living aids during the year. In addition, we launched Boots Prescriptions Direct, an online private prescription service for a targeted range of medical conditions.

The Boots Advantage Card loyalty scheme, where customers earn points on purchases for redemption at a later date, continues to be a key element of our offering. During the year the number of active Boots Advantage Card holders (which we define as members who have used their card at least once in the last 12 months) increased to 16.8 million, reflecting its position as one of the largest and most valued loyalty schemes in the UK. In October, we launched "Treat Street", a new online shopping service which enables Boots Advantage Card customers to collect points when they shop online with around 60 well known retail brands.

We attribute much of the Boots success again this year to our passionate focus on customer service and care, with the customer very much at the heart of our business strategy. We continue each week to analyse over 25,000 customer responses to in-store marketing surveys to better understand customers' evolving needs. We are pleased that our customer care number improved year on year as a result of our ongoing focus on key areas that we know are important to our customers, including "value for money", "quick and easy to pay", "staff available and approachable", and "time taken to get my prescription". As a result, unsolicited customer compliments increased by over two thirds.

During the year we recruited around 1,000 graduate and fully qualified pharmacists in the UK and continued to invest in our people. Over 95% of our store colleagues made use of our e-learning system first introduced into stores in 2008/09.

We continue to invest in our store portfolio and in making our products more accessible and convenient for our customers to buy. In 2010/11 we opened 56 new Boots stores, 37 of which were relocations, and refitted a further 119 stores. At the year end, in the UK we had 2,472 health and beauty stores, of which 2,382 included a pharmacy.

Boots Opticians revenue increased by 2.8% as a result of including a full year of sales from Dollond & Aitchison practices acquired in May 2009 when the two businesses merged. Like for like revenue from owned practices decreased by 2.4% due to a decline in the optical market and the competitive environment, which particularly impacted those practices still trading as Dollond & Aitchison. Trading profit increased as a result of cost synergies from the merger and the subsequent integration of Dollond & Aitchison. Further cost savings are on track to be delivered in the coming year. At the year end we had 656 practices, including 192 franchises. The rebranding programme is now largely complete with nearly 500 practices (including franchises) now trading as Boots Opticians, the balance of those not yet rebranded being mainly franchised practices. During the latter part of the year we rolled out a new customer offer which is proving to be popular with customers.

In October we announced a programme within the UK part of our Health & Beauty Division and related contract manufacturing activities to provide best in class support for stores and drive future growth. The programme, which focuses on optimising end-to-end business processes, includes moving to a leaner central support organisation, supported by new systems, a streamlining of manufacturing operations and optimisation of supply chain activities. It does not affect the employee base within UK stores.

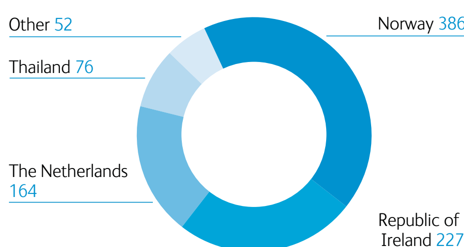
Over the next three years, the programme will result in a reduction of around 900 non-store based roles in the UK, the majority of which are in Nottingham. This represents under 10% of the UK non-store workforce of these businesses. Where possible, the reduction will be achieved through staff turnover and by offering redeployment to other areas within the Group. The restructuring programme is targeted to reduce operating costs by around £56 million per annum by 2013/14. Related exceptional charges are expected to total around £67 million, of which £37 million was charged in 2010/11.

Health & Beauty Division – International

Total revenue in countries outside the UK increased year on year by 6.1% to £905 million. Trading profit increased by 8.0% to £54 million, with increased profitability in all countries, apart from Norway and The Netherlands. Trading margins increased by 0.1 percentage points, mainly as a result of improved sales mix including higher sales of No7. On a constant currency basis, revenue increased by 5.9%, like for like revenue decreased by 1.7%, and trading profit increased by 7.8%. A net 37 stores were added during the year, all of which have pharmacies, bringing the net total to 478.

Revenue by country

for the year ended 31 March 2011
£million



Stores by country

at 31 March 2011

Continuing operations	Number
Norway	154
Republic of Ireland	58
The Netherlands	72
Thailand	182
Other	27
	493

In Norway, revenue increased by 0.5% on a constant currency basis. Like for like revenue decreased by 0.6%, good retail sales growth in rebranded stores being more than offset by lower dispensing sales growth due to lower reimbursement pricing. The conversion to our “Boots apotek” branded format was completed during the year. The success of this format, with a high proportion of Boots beauty and toiletries products, together with tight cost controls, enabled the business to increase its profitability before one-off reorganisation costs.

In the Republic of Ireland, where we trade as Boots, revenue increased by 0.6% on a constant currency basis. Like for like revenue decreased by 3.0%, the fragile state of the Irish economy particularly impacting retail sales. Like for like dispensing item volume growth was strong. Profits increased due to improved margins and lower operating costs despite the opening of three new stores in the year.

In The Netherlands, revenue decreased by 1.8% on a constant currency basis, like for like revenue decreasing by 1.8%. Profits were adversely impacted by the expansion of Dutch healthcare insurers’ use of tenders to select the lowest price generic medicines, referred to as the “preference policy”, and a reduction in the government determined dispensing fee per item.

The “Boots apotheek” pharmacy concept (which has a much stronger retail offering than is typical in Dutch pharmacies) was extended during the year. We now have 13 stores with further pharmacies scheduled to be rebranded in 2011/12.

In Thailand, where Boots is one of the largest health and beauty pharmacy chains, revenue growth increased by 0.5% on a constant currency basis, like for like revenue decreasing by 1.3%. Although the civil unrest between March and May 2010 adversely impacted trading, a combination of store openings, margin growth and underlying store cost efficiencies enabled the business to maintain profit levels. A net 17 stores were added in the year.

Other revenue mainly comprises revenue from the sale of own brand products to third parties in a number of countries including the US, revenue from owned pharmacies in Lithuania and Russia, sales to franchisees and franchise income.

No7 performed particularly well in the US during the year, benefiting from several No7 products receiving awards from the US publication of Good Housekeeping magazine. In addition we have recently launched the No7 skincare range in Ulta, a US beauty chain, while continuing to sell No7 and other Boots products in over 1,700 Target stores. In March we commenced a distribution agreement for the sale of a number of No7 products in Finland.

Sales of the Boots Laboratories Serum7 skincare range in continental Europe increased following the commencement of our distribution partnership in Italy with Procter & Gamble as well as increased distribution through the Pharmaceutical Wholesale Division.

At the year end we operated 22 retail pharmacies in Lithuania (following the acquisition of ANZAG) and five in Russia. In addition, around 50 stores are operated by our franchise partner in the United Arab Emirates, Kuwait, Qatar, Bahrain and the Kingdom of Saudi Arabia. To further support our international expansion, we established a partnership with Farmacevtföretagarna, an organisation formed by the Swedish Pharmaceutical Association, to roll-out Boots branded pharmacies on a franchise basis in Sweden. The first franchised “Boots apotek” opened in March 2011 with further openings taking place since the year end.

Following the transfer of ownership of 51% of our Italian businesses, the Italian pharmacies are no longer consolidated as part of the Group but are treated as an associate.

Beauty in action

"There's something for everyone at Boots."

Boots has been serving customers for over 160 years, leading the way in providing excellent customer support and offering products and services that our customers tell us they want.

Creating "feel good" moments provides both a powerful customer proposition and a way of inspiring our people. We recognise that health and beauty are intrinsically linked and together contribute to overall wellbeing. This understanding drives our quest for better knowledge, products and services. Our customers look to Boots as a trusted partner to champion the issues they care about and provide personalised health and beauty advice for themselves and their families.

Selling approximately 6,000 products in the UK every minute during store trading hours, we continue to surprise our customers with exciting new products and ranges. No7, the UK's leading skincare brand is only available at Boots. In September we launched No7 Protect & Perfect Intense Day Cream with 5-star UVA protection and SPF15. In November, we launched Boots Pharmaceuticals, which has the widest range of healthcare products on the UK market.

We use the understanding we have of our customers throughout our business, from new product development to customer service, and continually deepen this through research, feedback and data gathered through our Boots Advantage Card programme. This year, we launched the Boots Treat Street website in the UK, where our customers can shop online with their favourite stores and receive Boots Advantage Card points.

Our people are focused on delivering ever-higher levels of what we call "legendary" customer service and we have seen great results in our customer care measure. Boots UK is a top ten performer in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI) and number one ranking in the Reputation Institute's Global Reputation Pulse Study in 2010.

With around 2,500 stores across the UK and online at boots.com and BootsWebMD.com, we work to find practical ways to make a difference in our customers' lives, helping them to look and feel better than they ever thought possible.

HEALTH+

Helping our customers look and feel their best

Pharmaceutical Wholesale Division

Ornella Barra
Chief Executive,
Pharmaceutical Wholesale Division

Our pharmaceutical wholesale businesses, together with our associates and joint ventures, supply medicines, other healthcare products and related services to over 160,000 pharmacies, doctors, health centres and hospitals from over 370 distribution centres in 21 countries.

Pharmaceutical Wholesale revenue

+23.6%

Pharmaceutical Wholesale trading profit

+36.2%

Performance by business

for the year ended 31 March 2011

		Year on year growth	
Continuing operations	Total £million	Reported	Constant currency
Revenue			
France	4,557	-4.7%	-0.6%
UK	2,673	+5.1%	+5.1%
Turkey	1,340	n/a	n/a
Spain	1,284	-5.4%	-1.4%
Germany	1,248	+263.8%	+279.1%
Russia	788	+19.9%	+15.0%
The Netherlands	766	-6.8%	-2.8%
Czech Republic	456	+3.2%	+3.0%
Norway	382	+14.4%	+10.8%
Egypt	374	n/a	n/a
Other	113		
Intra-segment	(39)		
	13,942	**+23.6%**	**+26.1%**
Trading profit	**320**	**+36.2%**	**+38.3%**
Trading margin	**2.3%**	**+0.2pp**	**+0.2pp**

In our Pharmaceutical Wholesale Division, while market conditions continued to be challenging, the Division delivered a double digit growth in trading profit. This was achieved through a combination of organic growth, benefits from the Division-wide business improvement programme and the impact of acquisitions in the year.

Alliance Healthcare continues to be at the forefront of adapting its business model to better meet the needs of governments, pharmaceutical manufacturers and pharmacy customers.

Revenue increased year on year by 23.6% to £13,942 million and trading profit increased by 36.2% to £320 million. Overall trading margins increased by 0.2 percentage points. Adjusting for acquisitions and disposals, on a constant currency basis, like for like revenue and trading profit both increased by 1.7%.

Like for like trading profit excluding Russia, increased year on year by more than 10%, reflecting good profit growth in our largest countries.

During the year, we made notable steps in further expanding our Pharmaceutical Wholesale Division internationally. In July, we became the majority shareholder in Hedef Alliance in Turkey, which also has a strong presence in Egypt and, through its associate, in Algeria. In December, we completed the acquisition of ANZAG in Germany, which has interests in Lithuania, Romania and, through its associate, in Croatia which also trades in Bosnia Herzegovina, Serbia and Slovenia. As a result, our Group is now the number one pharmaceutical wholesaler in Europe and the only wholesaler with large operations in each of the five largest pharmaceutical wholesale markets.

As in the previous year, our published like for like revenue growth was held back by branded ethical manufacturers switching to distributing product direct to pharmacies which, under International Financial Reporting Standards, we account for on an agency basis. This means that we do not report these goods going through our wholesale network as revenue, although we are required to include the related receivables and payables on our balance sheet due to timing differences. Adjusting for this accounting treatment, our more comparable underlying like for like sales growth was around 3%, which was higher than the market growth rate.

We have a continuous focus to anticipate changes in the marketplace, make the most of future opportunities and support businesses in individual countries to implement our new wholesale business model.

During the year the first phase of a Division-wide restructuring programme that commenced at the end of 2008/09 was largely completed. The target of £55 million of annual efficiency gain benefits, from the first phase, was delivered in 2010/11, a year ahead of the original schedule.

In October we commenced the second phase of the Division-wide restructuring programme, to further adapt our pharmaceutical wholesale businesses to better fulfil the expectations of customers and payors, as well as securing new opportunities in the marketplace. It affects all businesses in the Division (with the exception of businesses acquired this year) and will result in a 2% reduction in headcount across the Division, which will be partially achieved through staff turnover. The programme is targeted to reduce operating costs by around £24 million per annum by 2013/14 and has resulted in an exceptional charge of £48 million during the year which is higher than originally announced due to additional asset write offs.

At the beginning of October, we completed the transfer of responsibilities to Alliance Healthcare in the UK for purchasing and distribution of those prescription medicines which Boots previously sourced directly. This decision, which followed a review of the dispensing supply chain, was taken in light of future business growth and will lead to increased efficiencies over time.

Pharmaceutical Wholesale Division continued

Markets, products and services

We estimate that the wholesale markets in which we operated throughout the year grew by around 1% in value on a constant currency basis, this growth being weighted on the basis of our wholesale revenue. This is slower than we have seen in recent years mainly due to government price reduction measures in several markets.

Market growth from the introduction of higher priced new branded pharmaceuticals has continued to be partially offset by increased penetration of lower priced generic medicines and by reductions in generics' prices. Generic penetration rates rose year on year in all our western European markets, with penetration levels still typically being lower in southern Europe.

The overall level of the parallel trade market in Europe has been stable following declines in previous years as manufacturers continue to seek ways to curtail these activities, together with fewer material price differentials between markets.

We have continued to respond to the developing needs of branded ethical pharmaceutical manufacturers, who are increasingly adapting and changing their approaches to distribution across this market. This trend is growing in the UK and several companies have already made the switch from selling via all pharmaceutical wholesalers to either selling direct to pharmacies using relatively few wholesalers as distributors, or selling only through a small number of selected wholesalers.

We have long established and strong relationships with many of these manufacturers. In addition, our responsiveness in meeting their changing requirements as well as our highly efficient and reliable logistics network have rapidly established Alliance Healthcare as the UK market leader and the partner of choice for pharmaceutical manufacturers.

Alloga, which has owned operations in five countries, and a presence in a further five countries through our associates, works with manufacturers providing them with pre-wholesale and contract logistics services to access wholesalers, pharmacies and hospitals on a pan-European basis.

Almus, our exclusive range of generic medicines, continues to provide marketing and sourcing benefits aimed at offsetting the impact of patent expiries. Almus further broadened its product availability during the year and increased penetration in the UK and Spain. Almus is also distributed in France and through our associates in Portugal and in Italy.

We further differentiate our wholesale offering by continuing to develop the range of services offered to independent pharmacy customers. This includes membership of Alphega Pharmacy, which encompasses a comprehensive range of added-value services including branding, professional training and patient care, retail support services and supply benefits together with pharmacy and IT support. Alphega Pharmacy, which operates in six countries, including our associate in Italy, increased its membership year on year by 17% to more than 3,500 pharmacies.

Alphega Pharmacy is starting to work closely with vivesco, ANZAG's network of some 1,100 German pharmacies, to enhance the range of services offered by both.

In France, revenue decreased by 0.6% on a constant currency and like for like basis. Revenue growth was impacted by increased competition in what continues to be a difficult market. A focus on improving service to key customers together with the benefits from the Division-wide business improvement programme enabled the business to improve profitability in the period.

Depolabo, which provides more than 70 manufacturers with pre-wholesale and contract logistics services in France was rebranded to Alloga during the year.

In the UK, revenue increased by 5.1%, growth being held back by an increase in the proportion of the volume of sales that are now delivered direct to pharmacies on behalf of manufacturers, which we account for on an agency basis. Revenue growth, together with margin improvements and a full year of benefits from the first phase of the Division-wide business improvement programme enabled the business to increase profits.

Central Homecare, which provides home healthcare services to patients who require management of complex drug therapies, while still a relatively small part of our UK wholesale business, performed well, increasing revenue by more than 20% year on year, helped by new contract wins. This demonstrates the future potential for specialist homecare services.

In Turkey, the results of Hedef Alliance are included from 23 July 2010 following the acquisition of a controlling interest. On a pro forma basis for the full year, revenues decreased by 2.0% to £1,885 million on a constant currency basis, mainly as a result of government measures to reduce prices on pharmaceutical products, which was partially offset by growth in non-pharmaceutical product sales.

In Spain, revenue decreased by 1.4% on both a constant currency and like for like basis. New government regulations to reduce public expenditure on pharmaceutical products and strong domestic competition held back revenue and margin growth. Despite these pressures, the business substantially increased profits year on year due to an increase in generics sales, margin management and the benefits of the Division-wide business improvement programme.

In Germany, the pharmaceutical wholesale market was impacted by new government measures, referred to as "AMNOG" (German Act relating to the Restructuring of the Medicines Market), to reduce expenditure on pharmaceuticals. These measures, which will become fully effective in January 2012, contained an interim reduction in wholesaler margin from January 2011.

ANZAG, our full service pharmaceutical wholesale business acquired in December 2010, continues to be quoted on the Frankfurt Stock Exchange. It reported sales revenue growth of 0.8% in Germany for the six month period to 28 February 2011 compared to the same period a year ago. Profits were lower as a result of the new government measures and competition in the market. Following a change in its year end to 31 March, ANZAG will release a trading update at the end of June for the seven month accounting period to 31 March 2011.

In Russia, revenue increased by 15.0% on both a constant currency and like for like basis. Although the market continued to grow, intense competition, particularly in the Moscow region, resulted in lower wholesaling margins across the industry. As a consequence, our Russian business reported a loss for the year as it transitions to a model to enable it to compete effectively in what we continue to expect to be challenging market conditions.

In The Netherlands, revenue decreased by 2.8% on both a constant currency and like for like basis, mainly as a result of substantially lower reimbursement prices for generic prescription medicines. This was mainly due to further expansion of the use of tenders for generic medicines by Dutch healthcare insurers, referred to as the "preference policy" and regulatory price reductions on branded ethical products. These changes combined with strong competition in the market, resulted in lower profits.

In the Czech Republic, revenue increased by 3.0% on both a constant currency and like for like basis, reflecting strong growth in the hospital channel. This, together with tight operating cost controls, enabled the business to increase profits.

In Norway, revenue increased by 10.8% on both a constant currency and like for like basis, mainly due to increased pharmacy channel revenues including intra-group sales. Margin mix and higher costs to support the first year of a significant health authority contract resulted in a small decrease in profits.

In Egypt, the results of UCP are included from 23 July 2010 following the acquisition of a controlling interest in Hedef Alliance. On a pro forma basis for the full year, revenues increased by 17.8% to £571 million on a constant currency basis. Revenue growth was in line with the growth of the market.

Other revenue mainly comprises the results of our pharmaceutical wholesaling activities in Romania and Lithuania.

Pharmacies in action

"With Alphega's support, my patients get a better service from their local pharmacy."

Launched in 2001 in France, Alphega Pharmacy is a leading network of independent pharmacists in Europe.

Through our network, we support more than 3,500 independent members across six countries – the Czech Republic, France, Spain, Russia, the UK and our associate in Italy.

Our aim is to improve the quality of health in communities we serve by developing a benchmark independent community pharmacy model to help independent pharmacists across Europe meet their patients and consumers needs.

Our Health Awareness Activities programme offers pharmacists many methods of support, including store signage and window posters, training days and health screening toolkits.

Our toolkits or "service in a box" help pharmacists conduct health screening activities with new customers and help existing customers learn how to better manage conditions such as asthma, obesity and smoking cessation.

"Having your own business is a big responsibility but under Alphega Pharmacy's wing I feel comfortable and confident in the future, knowing there is a possibility to develop my business at a higher European level."
Zhanna Zvyagintzeva, Alphega Pharmacy owner, Russia.

"In this time of increasing competition in the market, I find Alphega Pharmacy provides really effective tools to become market leaders."
PharmDr. Lubora Bednaříková, Alphega Pharmacy owner, Czech Republic.

HEALTH+

Helping our customers look and feel their best

Other activities

Contract Manufacturing & Corporate Costs

BCM, our Contract Manufacturing business, manufactures consumer health and beauty products for internal supply and third party brands, and also produces special prescription medicines for individual use.

Total reported revenue increased year on year by 0.4% to £253 million, an increase of 1.8% on a constant currency basis. Third party revenue increased year on year by nearly 15% on a constant currency basis, reflecting increased sales to key strategic customers. This growth offset lower intra-group sales following a decision by Boots to increase sourcing of cosmetic gift packs from the Far East. Trading profit increased by £2 million to £5 million as a result of ongoing actions to modernise work practices and improve the business's cost competitiveness.

In February 2011 we announced a long term co-operation agreement in the beauty category with Carrefour. This will result in additional third party revenue to BCM in the coming years.

Corporate Costs decreased year on year by £4 million to £41 million following the completion of a number of key programmes across the Group in 2009/10.

Associates and joint ventures

Investment in associates and joint ventures, almost all of whom wholesale and distribute pharmaceuticals, is an important component of our Group's activities.

During the year, we acquired a controlling interest in two of our largest associates, Hedef Alliance and ANZAG, following which these two businesses are fully consolidated within the Group's results and are no longer associates. Following the transfer in July 2010 of ownership of a 51% stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited, we account for the remaining 49% stake as an associate.

Our share of revenue of associates and joint ventures decreased year on year by 13.0% to £3,126 million as a result of the acquisition of controlling interests in Hedef Alliance and ANZAG. For the same reasons, our share of trading profit decreased year on year by 14.4% to £113 million and our share of underlying post tax earnings decreased by 26.3% to £74 million. On a constant currency basis, adjusting for changes in associate and joint venture interests, our share of like for like revenue increased by 11.4%, our share of like for like trading profit increased by 11.6% and our share of like for like underlying post tax earnings increased by 1.9%.

The acquisition of controlling interests in Hedef Alliance and ANZAG brought the Group two new associates with operations in five countries. Hydra Pharm is a leading pharmaceutical wholesale operator in Algeria and Oktal undertakes pharmaceutical wholesaling in Croatia and also trades in Bosnia Herzegovina, Serbia and Slovenia.

In China, Guangzhou Pharmaceuticals Corporation, our joint venture established in 2008, performed well, particularly in the Guangzhou province, with good revenue growth, margin mix management and control over costs enabling the business to significantly improve profitability.

Alliance Healthcare Italia became an associate of the Group at the end of July following the divestment of 51% of our shareholding. Since then, the business has improved profitability versus the comparable period in the prior year mainly as a result of margin mix and the management of discounts.

Alliance Healthcare Portugal profitability continued to be impacted by a particularly challenging market environment, including government measures to reduce pricing.

We do not comment specifically on the performance of Galenica as it is a quoted company that separately reports its own results on a different year end. Galenica published its 2010 Annual Report in March 2011, reporting net profit (after tax) up 10.8% year on year and net sales up 6.6%. In addition to developing its international branded pharmaceuticals business and continued investment in its Swiss pharmaceutical wholesale and pharmacy operations, Galenica has established a new nephrology joint venture with Fresenius Medical Care to commercialise innovative and high quality products that improve the life of patients suffering from chronic kidney disease.

Financial review

George Fairweather
Group Finance Director

During the year we generated a strong operating cash flow which was used to fund investment in growth and reduce net borrowings.

Financial summary
for the year ended 31 March 2011

	Underlying £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Timing differences within net finance costs £million	Discontinued operations £million	Statutory £million
Trading profit/profit from operations before associates and joint ventures	**1,051**	**(114)**	**7**	**–**	**–**	**944**
Share of post tax earnings of associates and joint ventures	74	–	(1)	–	–	73
Impairment of investments in associates	–	–	(4)	–	–	(4)
Net gain on acquisitions of controlling interests in associates	–	–	19	–	–	19
Net finance costs	(381)	–	15	(29)	–	(395)
Tax (charge)/credit	(137)	45	75	(8)	–	(25)
Profit for the year from discontinued operations	–	–	–	–	3	3
Underlying profit/profit for the year	**607**	**(69)**	**111**	**(37)**	**3**	**615**
Year on year increase in underlying profit/profit for the year	**14**					**11**

- **£344 million invested in acquiring businesses**
- **£253 million of cash invested in capital expenditure**
- **£546 million reduction in net borrowings**

Exceptional items

Exceptional items comprised the following:

	£million
Pharmaceutical Wholesale Division restructuring programme	(48)
UK Health & Beauty restructuring programme	(37)
Net gain in relation to defined benefit pension schemes	60
Negative goodwill	16
Net gain on disposal of non-current assets	24
Acquisition related costs	(8)
Within profit from operations before associates and joint ventures	7
Within share of post tax earnings of associates and joint ventures	(1)
Impairment of investments in associates	(4)
Net gain on acquisitions of controlling interests in associates	19
Within profit from operations	21
Discounts on repurchase of acquisition borrowings	4
Gain on change of status of available-for-sale investments	2
Reassessment of obligations to non-controlling interests	9
Net exceptional items before tax	36
Tax credit on exceptional items	3
Exceptional tax credit	72
	111

The net gain in relation to defined benefit pension schemes arose on projects the Group has undertaken to ensure the long term security of accrued benefits for its defined benefit pension schemes. In the UK, the Group closed all of its defined benefit pension schemes to future accrual, which gave rise to £153 million of curtailment gains and negative past service costs, net of associated costs. These were predominantly non cash. The obligations of the Alliance UniChem UK Group Pension Scheme were subsequently transferred to an insurer which gave rise to a settlement loss, including associated costs, of £96 million, prior to the scheme being fully bought out. This loss was predominantly cash settled. The Group also closed its defined benefit pension schemes to future accrual in the Republic of Ireland and Norway, and subsequently transferred the obligations of the Norwegian schemes to a third party.

Negative goodwill arose on the acquisition of a controlling interest in Andreae-Noris Zahn AG ("ANZAG").

The net gain on disposal of non-current assets mainly related to properties sold to the insurer of the Alliance UniChem UK Group Pension Scheme.

The net gain on acquisitions of controlling interests in associates related to Hedef Alliance Holding A.S. ("Hedef Alliance") and ANZAG respectively, where the respective carrying values of the pre-existing interests were remeasured to fair value giving rise to an overall net gain.

The discounts on repurchase of acquisition borrowings were for borrowings acquired from holders in the secondary market, including a related party. The nominal value of acquisition borrowings acquired was £83 million at a cost of £79 million. In total £641 million has been repurchased since the programme began in early 2009 at a cost of £403 million. The discounts, net of related prepaid financing fees, have been accounted for as loan redemptions, reducing net borrowings.

The exceptional tax credit related to the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2011.

Timing differences within net finance costs

Timing differences within net finance costs comprise IAS 39 timing differences and the unwind of discounts on obligations to non controlling interests.

IAS 39 timing differences relate to derivative financial instruments used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments. The net IAS 39 timing difference in the year was a £3 million gain.

Obligations to non controlling interests relate to commitments to acquire equity stakes, including put options, and their share of future dividends where there are commitments to distribute dividends. The committed dividends are dependent on future profits. The liabilities recognised for these obligations are discounted, and the unwind of discounts in the year was £32 million.

Underlying net finance costs

Underlying net finance costs decreased year on year by 10.4% to £381 million, the Group having benefited during the year from low interest rates. As a result, interest cover increased to 2.8x trading profit.

Underlying net finance costs comprised the following:

	Funding £million	Retirement benefit obligations £million	Total £million
Finance income	100	206	306
Finance costs	(452)	(235)	(687)
	(352)	**(29)**	**(381)**

Underlying net finance costs for retirement benefit obligations comprised the expected return on defined benefit schemes' assets within finance income, and interest on schemes' liabilities within finance costs.

Underlying tax charge

The underlying tax charge of £137 million included a prior year tax credit of £11 million arising from the favourable resolution of prior year tax computations. Tax paid was £59 million, a year on year increase of £45 million.

Financial review continued

Cash flow

for the year ended 31 March 2011

	£million
Trading profit	**1,051**
Underlying depreciation and amortisation	249
EBITDA from continuing operations	1,300
EBITDA from discontinued operations	8
Exceptional items	(179)
Net movement in working capital and provisions	207
Movement in net retirement benefit obligations	(27)
Cash generated from operations	**1,309**
Interest	(316)
Tax	(59)
Acquisitions of businesses	(344)
Disposal of businesses	276
Capital expenditure	(253)
Asset disposals	93
Other	(133)
	573

Cash flow

During the year the Group generated a strong operating cash flow which was used to fund investment in growth and reduce net borrowings.

At £1,309 million, cash generated from operations exceeded £1 billion for the fourth consecutive year. Included within this amount was an exceptional payment of £80 million for the transfer of the obligations under the Alliance UniChem UK Group Pension Scheme. The movement in net retirement benefit obligations included a £20 million payment into the principal UK pension fund, in accordance with the agreement entered into in 2007, in addition to regular contributions up until the closure of the schemes to future accrual.

Net interest paid of £316 million was lower than underlying net finance costs in the income statement charge, mainly due to the amortisation of prepaid financing fees of £26 million, £21 million of rolled up interest on subordinated debt which is payable when the debt itself is repaid and £29 million of costs for net retirement benefit obligations.

£344 million of cash was invested in acquiring businesses, net of cash and borrowings acquired, the principal acquisitions being controlling interests in Hedef Alliance, one of the largest pharmaceutical wholesalers in Turkey, and ANZAG, one of the three largest pharmaceutical wholesalers in Germany. This was partially funded by £276 million from disposals relating to the transfer of 51% of our stake in our Italian businesses to a company controlled by our ultimate shareholder, AB Acquisitions Holdings Limited. The amount was inclusive of the net borrowings of £214 million at disposal.

£253 million of cash was invested on capital expenditure. Over three quarters of this investment was in our Health & Beauty Division, primarily in the UK. Key areas of expenditure in the UK were refits, relocations and retail store openings, investments in the new automated distribution centre in Burton-on-Trent which was purchased in 2009/10, and various information technology projects. Capital expenditure in our Pharmaceutical Wholesale Division was mainly on upgrading our distribution network and on information technology.

Asset disposals mainly related to properties sold to the insurer of the Alliance UniChem Group UK Pension Scheme.

Other net cash outflows included £119 million of investments in profit participating notes issued by related parties.

Financial position

At the year end net borrowings (defined as cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of amortised prepaid financing fees) were £7,843 million, a year on year reduction of £546 million.

Movement in net borrowings in the year

	£million
Total cash inflow	**573**
Discounts on repurchase of acquisition borrowings	4
Amortisation of prepaid financing fees	(26)
Capitalised finance costs	(21)
Currency translation differences	18
Fair value adjustments on financial instruments	(2)
Decrease in net borrowings	**546**
Net borrowings at 1 April 2010	(8,389)
Net borrowings at 31 March 2011	**(7,843)**

In accordance with International Financial Reporting Standards, fees incurred relating to the raising of finance were netted off the related borrowing. These prepaid fees are amortised over the term of the financing being provided, resulting in an increase of net borrowings. Capitalised finance costs relate to the rolled up interest on the subordinated debt, which is payable when the debt itself is repaid.

Currency translation differences predominantly relate to the retranslation of elements of the acquisition borrowings drawn down in Euros and Swiss Francs. The strengthening of Sterling relative to the Euro over the year, which was partially offset by a weakening of Sterling relative to the Swiss Franc, gave rise to a decrease in net borrowings. In accordance with our currency risk treasury policy, borrowings were drawn in these currencies to partially hedge the translation exposures on the net assets of our significant businesses and investments denominated in Euros and Swiss Francs.

Analysis of net borrowings

at 31 March 2011

	£million
Cash and cash equivalents	629
Restricted cash	
– deposits collateralising loan notes	105
– other	180
Net derivative financial instruments	(209)
Borrowings	(8,548)
	(7,843)

Restricted cash comprises cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations. At 31 March 2011 "restricted cash – other" consisted of deposits restricted under contractual agency agreements, cash pledged as collateral and cash restricted by law.

Net derivative financial instruments are carried at fair value and mainly relate to legacy cross currency interest rate swaps taken out to hedge borrowings. These borrowings were repaid in 2007, and the residual foreign currency exchange risk was hedged through short dated forward currency derivatives. The legacy swaps are repayable in November 2011 and June 2012.

Shareholders' equity

Shareholders' equity increased during the year by £473 million to £4,784 million at the year end.

Movement in shareholders' equity in the year

	£million
Profit for the year	**595**
Income and expense recognised directly in equity:	
Currency translation differences	(12)
Defined benefit schemes – net actuarial gains net of surplus restriction	145
Movements on available-for-sale reserve including amounts recycled	(9)
Share of other comprehensive income of associates and joint ventures	6
Tax on items recognised directly in equity	(15)
Transactions with owners:	
Transfer to non controlling interests	34
Liability to acquire equity stakes from non controlling interests	(362)
Purchase of non controlling interests	91
Net movement in shareholders' equity	**473**
Shareholders' equity at 1 April 2010	4,311
Shareholders' equity at 31 March 2011	**4,784**

Currency translation differences arose on the retranslation of the net assets of our non-Sterling denominated businesses and investments, net of currency borrowings drawn to partially hedge these translation exposures. These differences were mainly as a result of the strengthening of Sterling during the year relative to all of the currencies significant to the Group, with the exception of the Swiss Franc.

Liability to acquire equity stakes from non controlling interests related to contractual commitments and options over the remaining equity in Hedef Alliance following the increase in the Group's interest from 50% to 60% in July 2010. The purchase of non controlling interests mainly related to the subsequent purchase of an additional 10% interest in Hedef Alliance, being the first of the two further contractual committed purchases.

Retirement benefit obligations

The net reduction in the retirement benefit obligations was mainly due to the curtailment gains on the closure of the UK defined benefit schemes to future accrual and returns on scheme assets partially offset by obligations on the largely unfunded scheme of ANZAG, which was acquired during the year.

Following the introduction of new defined contribution pension plans in the UK in July 2010, the number of active members increased by 17% to around 22,000.

Movement in retirement benefit obligations in the year

	£million
Income statement:	
Net gain within profit from operations	49
Net finance costs	(29)
	20
Net actuarial gains net of surplus restriction recognised in shareholders' equity	145
Cash contributions	125
Acquisitions	(52)
Currency translation differences	1
Net movement in retirement benefit obligations	**239**
Net retirement benefit obligations at 1 April 2010	(462)
Net retirement benefit obligations at 31 March 2011	**(223)**

Financial review continued

Cash contributions during the year included a payment of £80 million to an insurer for the transfer of the obligations under the Alliance UniChem UK Group Pension Scheme prior to it being fully bought out (the settlement loss arising on transfer included within profit from operations), and a £20 million deficit funding payment into the Boots Pension Scheme, the Group's principal retirement benefit scheme. The deficit funding payment is part of the Memorandum of Understanding entered into by the Group during 2007/08, the main elements of which were an agreement that conservative investment strategies would be maintained and a commitment to pay additional cash contributions. The additional contributions comprised £52 million in 2007/08 with a further £366 million to be made over 10 years from August 2008. £20 million was paid in each of the last three years, with the same amount committed in 2011/12 and 2012/13. The scheme has continued with its investment strategy of planning to hold 15% of its assets in equity and property to back long term liabilities, and 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years.

The Boots Pension Scheme is currently undergoing its triennial actuarial funding valuation, and in March 2011, as part of the funding plan, the Group and the scheme's trustees established a pension funding partnership structure. Under this structure, the Group contributed an interest in the partnership worth £146 million to the scheme, and transferred a number of properties to the partnership under a sale and leaseback arrangement. The partnership will make annual distributions of around £10 million to the scheme for 20 years and a capital sum in 2031 equal to the lower of £156 million and any funding deficit in the scheme at that point in time. The scheme's interest in the partnership reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investment held by the scheme in the partnership does not qualify as an asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

These funding initiatives are part of the Group's ongoing plans to ensure long term security of accrued benefits for its defined benefit pension schemes. The contributions, both in terms of cash and the interest in the pension funding partnership, have resulted in current year UK tax relief leading to lower UK tax payments for the Group with further relief deferred into future years.

Capital structure

Our policy as a privately owned Group is to have an appropriately geared balance sheet. When considering appropriate debt levels we take into account both the level of unfunded pension liabilities and ongoing operating lease commitments.

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

We finance our operations through a combination of bank borrowings, leases, capital market funding and equity, including retained profits, to ensure that the Group has access to liquidity at all times and can fund itself in a cost-effective manner.

Treasury policies

The Group's treasury policies are reviewed at least annually by the Board.

Group treasury has responsibility for the Group's funding and cash management and manages the Group's financial counterparty credit, interest rate and currency risks. It enters into financial instruments solely for the purpose of managing these risks. It does not act as a profit centre and is not allowed to undertake speculative transactions.

Treasury risk management activities (principally currency and interest rate risk) are undertaken to protect the economic value of the Group. Where possible, the Group seeks to apply hedge accounting to financial instruments transacted for the purpose of hedging underlying exposures.

Liquidity risk management

Access to cost-effective funding is managed by maintaining a range of committed and uncommitted facilities sufficient to meet anticipated needs, arranging funding ahead of requirements, and developing diversified sources of funding.

Group liquidity is optimised through cash pooling and deposits with, or loans from, Group treasury companies. The Group's core borrowing is provided through committed bank facilities, partially drawn in Euros and Swiss Francs. These facilities mature between July 2014 and 2017. The Group also has access to a committed revolving credit facility. During the year, £118 million of the facility was purchased from the facility providers. At the year end £174 million of the facility was utilised to provide guarantees, mainly in relation to the Boots Pension Scheme, and £528 million was available. This facility provides access to funding in a range of currencies and is available until July 2014. Subsequent to the year end, a further £75 million of the facility was purchased.

Over 80% of net borrowings (gross of restricted cash) at 31 March 2011 were covered by facilities which were not repayable within the next four years. All were covered for at least the next three years.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern. Working capital requirements are typically at their highest in the period September to October due to the working capital requirements of Christmas trading. The Group continues to monitor its net borrowings position on a daily basis against both budget and a rolling two month cash forecast.

The Group's committed bank borrowing facilities require compliance with certain financial and non financial undertakings and covenants. The principal covenant is a net borrowings:EBITDA ratio, subject to various adjustments, primarily to exclude companies outside the banking group and to adjust for properties.

Interest rate risk management

The Board's policy is to protect its ability to service its debt obligations by ensuring that floating rate interest payments on not less than 50% of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc are hedged. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

At the year end, 66% of the Group's net borrowings were at fixed or capped interest rates. They included interest rate swaps with a notional principal amount of £509 million and interest rate caps over notional principal amounts of £3,500 million at 6.20% and €1,600 million at 4.80%. These caps end in July 2012. From that date up until July 2015, the Group has caps with notional principal amounts of £1,500 million at rates up to 6.00% and €2,000 million at rates up to 4.25%.

Currency risk management

The Group owns significant businesses and investments in continental Europe which cause a translation exposure on consolidation of their income statements and balance sheets. The Group partially hedges these translation exposures with borrowings denominated in the same currency. At the year end £1,828 million of the Group's net borrowings were in Euros.

The Group has a policy of hedging material non functional currency denominated transaction exposures, other than those offset by corresponding translation exposures, by entering forward currency derivatives contracts where such exposures arise.

The significant exchange rates relative to Sterling used in the preparation of financial information were as follows:

	Average 2010/11	As at 31 March 2011	Average 2009/10	As at 31 March 2010
Euro	1.18	1.14	1.13	1.11
Turkish Lira	2.37	2.49	2.42	2.29
Swiss Franc	1.58	1.47	1.70	1.60
Norwegian Krone	9.35	8.97	9.64	8.96
Russian Rouble	47.02	45.38	49.02	44.17

Credit risk management

The Group protects itself against the risk of financial loss arising from failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups, as well as by setting sovereign limits. Limits are set by reference to ratings issued by major rating agencies.

Credit risk exposure to commercial counterparties is managed through credit control functions in each of our businesses. New customers are credit checked, customer limits are reviewed at least annually and aged debtor reviews are undertaken regularly.

At the year end there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, at the balance sheet date.

Performance measures

Group

How fast we are growing

Revenue

+15.1%

£20.2 billion

Our profit performance

EBITDA

+10.8%

£1,300 million

Our profit performance

Trading profit

+14.2%

£1,051 million

The cash we are producing

Cash generated from operations

£1,309m

The cash we are investing in our future

Cash investment

£597m

How fast we are reducing our debt

Reduction in net borrowings

£546m

Health & Beauty Division

How fast we are growing

Revenue

+1.7%

Our profit performance

Trading profit

+5.5%

Our prescription growth per pharmacy

Boots UK dispensing like for like volume

+3.6%

Our retail growth per store

Boots UK like for like retail revenue growth (incl. VAT)

+1.2%

Health & Safety

Our progress

Work related "over three-day" lost time accidents/ injuries down

-16

to 666

Pharmaceutical Wholesale Division

How fast our markets are growing

Market value

+c.1%

How fast we are growing

Revenue – total

+23.6%

Revenue – constant currency

+26.1%

Our profit performance

Trading profit – total

+36.2%

Trading profit – constant currency

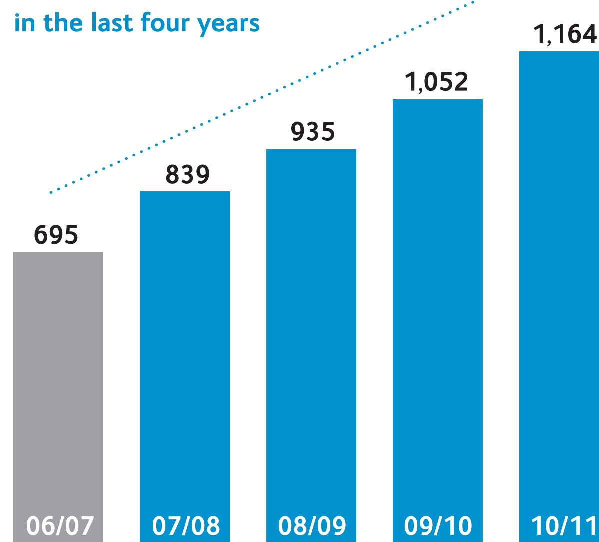
+38.3%

A glossary of key terms is included on page 113.

Financial record

Cash flow from operations exceeded £1 billion for the fourth consecutive year.

Trading profit
(including share of trading profit of associates and joint ventures)
£million



Alliance Boots was created on 31 July 2006 through the merger of Alliance UniChem Plc and Boots Group PLC. Alliance Boots was subsequently acquired by AB Acquisitions Limited on 26 June 2007. To assist in understanding the performance of the Group, pro forma financial information is set out below to show the results from continuing operations of the Group for the years ended 31 March 2007 and 31 March 2008 as if the two former groups had always been combined and the acquisition of Alliance Boots plc by AB Acquisitions Limited in June 2007 had taken place prior to 31 March 2006.

Financial results
for the years ended 31 March
(comparative revenue and trading profit amounts are re-presented to exclude the operations discontinued during the year)

	Pro forma 2006/07 £million	Pro forma 2007/08 £million	Actual 2008/09 £million	Actual 2009/10 £million	Actual 2010/11 £million
Revenue					
Health & Beauty	6,554	6,828	7,124	7,495	7,626
Pharmaceutical Wholesale	8,136	8,674	10,215	11,283	13,942
Contract Manufacturing	86	105	106	252	253
Intra-group	(1,090)	(1,202)	(1,309)	(1,459)	(1,603)
Group	**13,686**	**14,405**	**16,136**	**17,571**	**20,218**
Share of associates and joint ventures	1,953	2,313	3,151	3,593	3,126
	15,639	**16,718**	**19,287**	**21,164**	**23,344**
Trading profit					
Health & Beauty	501	603	671	727	767
Pharmaceutical Wholesale	164	192	201	235	320
Contract Manufacturing & Corporate Costs	(39)	(38)	(47)	(42)	(36)
Group	**626**	**757**	**825**	**920**	**1,051**
Share of associates and joint ventures	69	82	110	132	113
	695	**839**	**935**	**1,052**	**1,164**
Cash generated from operations	**887**	**1,152**	**1,045**	**1,130**	**1,309**

Risk management

Our approach is to identify, monitor and assess all significant risks and take steps, where necessary, to mitigate them.

Our risk management process

Our executive Directors and the Director of Internal Audit & Risk Management continue to play the leading role, monitoring the overall risk profile and regularly reporting to the Board through the audit committee. The process of risk identification is facilitated by the use of risk registers for Alliance Boots, and for each business. In addition, the Board through the executive Directors is responsible for determining clear policies as to what Alliance Boots considers to be acceptable levels of risk. These policies seek to enable employees to use their expertise to identify risks that could undermine performance and to devise ways of bringing them to within acceptable levels.

Where we identify risks that are not acceptable, we develop action plans to mitigate them with clear allocation of responsibilities and timescales for completion and ensure that progress towards implementing these plans is monitored and reported upon.

The risks we face

Macro-economic and political environment

Risk

Alliance Boots could be affected adversely by the impact of the current macro-economic and political environment on key suppliers and customers and by political unrest in certain countries in which it operates.

Mitigation

We have a rigorous process for identifying and monitoring all business critical suppliers and we develop appropriate contingency plans for suppliers we consider to be vulnerable. We also have a rigorous planning process to assess the impact of macro-economic and political developments in all countries in which we operate.

Impact of regulation

Risk

Alliance Boots operates in regulated markets and could be adversely affected by changes to existing regulation, new regulation and/or failure to comply with regulation.

Businesses in our Health & Beauty Division could be adversely affected by changes to licensing regimes for pharmacies, prescription processing regimes or reimbursement arrangements. Businesses in our Pharmaceutical Wholesale Division are subject to a range of regulations relating to such things as product margins, product traceability and the conditions under which products must be stored.

Mitigation

We seek to control this type of risk through active involvement in policy-making processes, understanding and contributing to government thinking on regulatory matters and building relationships with regulatory bodies directly and through representation in relevant professional and trade associations. We also seek to mitigate the risk of regulatory changes in any particular market by operating in many countries.

Changes and trends in consumer behaviour

Risk

Alliance Boots could be adversely affected by changes in consumer spending levels, shopping habits and preferences, including attitudes to our retail and product brands.

Mitigation

Our commercial skills and ability to respond flexibly to changing consumer demand are highly developed. Our strategy is to continue to enhance our market leading position in pharmacy-led health and beauty retailing in the UK, backed by differentiated brands and expert customer service, and by entering into strategic partnerships.

Competition

Risk

Changes in market dynamics or actions of competitors or manufacturers could adversely impact Alliance Boots.

Businesses in our Health & Beauty Division have a wide variety of competitors, including other pharmacies, supermarkets and department stores. Businesses in our Pharmaceutical Wholesale Division face competition from direct competitors and alternative supply sources such as importers and manufacturers who supply direct to pharmacies.

Mitigation

In our Health & Beauty Division our strategy is to capitalise on the potential and strength of our leading brands and the trust in which they are held, to build strong relationships with customers and suppliers, and to enhance our buying and promotional activities. In our Pharmaceutical Wholesale Division we continue to expand the scope of our operations in response to a changing marketplace, including entering into distribution agreements with manufacturers who wish to sell direct to pharmacies. Our successful development of own brand generic medicines and added-value service differentiates our offering to pharmacists and strengthens our competitive position.

Health, safety and environmental risks

Risk

Alliance Boots could suffer reputational damage caused by a major health and safety or environmental incident.

Mitigation

We set standards throughout the Group which are closely monitored and regularly audited. Health, safety and environmental incidents are logged and analysed in order to learn the necessary lessons. Any major incident is promptly reported to and investigated by the Group's executive committee.

Product/services risk

Risk

Alliance Boots could be adversely impacted by the supply of defective products or provision of inadequate services. In particular, this could come from allowing the infiltration of counterfeit products into the supply chain, errors in re-labelling of products and contamination or product mishandling issues. Through our pharmacies, we are also exposed to risks relating to the professional services we provide.

Mitigation

Throughout our Group we have robust purchasing and manufacturing processes, well developed contractual controls in relation to suppliers and a cohesive product control framework. This includes specific controls for the identification of counterfeit product. In our pharmacies we have a rigorous governance framework in place and we conduct regular dispensing compliance reviews to ensure that individual pharmacies follow approved processes.

Major operational business failures

Risk
Alliance Boots could be adversely impacted by a major failure of its distribution centres and logistics infrastructure, or its IT or operational systems.

Mitigation
We operate rigorously audited control frameworks, regularly update and test business continuity plans and continually seek to improve control of core business processes, both through self-assessment and through specific programmes relating to the delivery of key strategic projects.

Increased costs

Risk
Operating costs may be subject to increases outside the control of our businesses which could adversely impact Alliance Boots.

Mitigation
We use procurement professionals and sophisticated procurement techniques to purchase goods and services. We carefully control operating costs such as payroll and have a property management function to manage lease negotiations in the UK.

Change management

Risk
Alliance Boots could be affected adversely by the failure to achieve anticipated benefits from various business transformation programmes being implemented throughout the Group.

Mitigation
We have in place robust governance processes to control all key programmes, including regular programme board and steering group meetings at which progress to achieve required benefits is monitored rigorously.

Acquisitions

Risk
Failure to select suitable acquisitions at attractive prices, conduct appropriate due diligence and integrate into the Group, particularly where acquisitions are in new geographic markets, could adversely impact the performance of Alliance Boots.

Mitigation
We have extensive experience in identifying, making and successfully integrating acquisitions based on well established processes led by a dedicated mergers and acquisitions team. We closely monitor business performance of new acquisitions and conduct post-acquisition reviews.

Currency exchange

Risk
Alliance Boots has transaction currency exposures relating to the import and export of goods in currencies other than businesses' functional currencies. We also have translation currency exposures relating to profits and net assets denominated in currencies other than Sterling.

Mitigation
We have rigorous policies and procedures in place to manage and report transaction exposures. Translation exposures are partially mitigated by ensuring that borrowings are denominated in the major currencies in which we operate.

Funding and interest rate risks

Risk
Alliance Boots could be adversely impacted by a failure to renew existing funding arrangements when they expire, a failure to meet banking covenants or by a failure to contain borrowing requirements within existing facilities.

Mitigation
We have rigorous treasury policies and procedures to ensure that we have funding in place at all times with appropriate covenants to meet the needs of the Group.

We prepare both short and long term cash/borrowings projections for each business and the Group which are periodically reviewed. We report and monitor actual cash/borrowings by business and for the Group on a daily basis, comparing this to budgets and short term cash/borrowings forecasts.

Tight controls are in place over the approval of capital expenditure and acquisitions.

We protect against interest rate escalation through proactive treasury management and forecasting, including the use of interest rate caps and fixed rate borrowing.

Pension contributions

Risk
Alliance Boots could be required to increase the funding of its defined benefit pension schemes due to lower than expected pension fund investment returns and/or increased life expectancy of scheme members.

Mitigation
We retain independent actuaries to review investment performance, provide periodic investment advice and advise on appropriate actuarial assumptions and sensitivities. From 1 July 2010 all UK defined benefit schemes are closed to future accrual.

Data protection

Risk
Alliance Boots processes a significant volume of confidential personal and business data and could be adversely affected if any of this data were to be lost.

Mitigation
We have rigorous Group information security policies and procedures such as strong perimeter controls, access controls and data encryption. We are committed to the Payment Card Industry Data Security Standards and strive to ensure, where possible, that all processing done by ourselves complies with data protection legislation.

Our people

Alliance Boots is a major employer in the UK and many other countries. At the year end the Group, including our associates and joint ventures, employed over 115,500 people in more than 25 countries.

We recognise that the success of our Group is a result of the loyalty, passion and drive of our people and we greatly appreciate all their efforts. We are highly committed to the wellbeing of our people and wherever we operate we seek to be recognised as an employer of choice.

Our experience continues to demonstrate that motivated and enthusiastic people deliver great customer service and care. We aim to create a culture throughout the Group that fosters the commitment and trust to achieve this.

Our aim is to ensure that all our people are informed about and engaged in their part of the business locally, whilst augmenting their understanding about the Group and its future direction.

We communicate through a wide variety of channels, reflecting the diversity and geographical spread of our businesses. Approaches used to fulfil these aims include regular face-to-face team briefings, conference calls, magazines, newsletters and intranet sites. Feedback is sought on the effectiveness of our communications through surveys designed to gauge the opinions of our people and what is important to them.

Our businesses continue to achieve success in independent reviews which rate us as an employer of choice. In the UK, Boots Opticians achieved 1st place in the "Big Companies" section of the Sunday Times 2011 "Best Companies to Work For" awards, with Boots UK in 19th place. Boots Ireland achieved 8th place in The Best Place to Work Institute's "Best Large Workplace" 2011 listing for Ireland.

We aim to attract, develop and retain the best talent and, with this in mind, we established a Group-wide assessment and development programme which is in its second year of formation. In the UK in 2010/11, we recruited nearly 1,000 graduate and fully qualified pharmacists across the Group and continue to support our pharmacists by investing in their ongoing professional development.

Alliance Boots is a diverse Group of many different nationalities and talents. It is critical to our future success that we continue to nurture this diversity and so have designed our employment policies to achieve this.

We aim to provide equal opportunities, regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin. We do all that is practicable to meet our responsibilities towards the employment and training of disabled people. Where one of our people becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

We believe in open dialogue on how our businesses are performing and in forging meaningful partnerships with our people to achieve this. We communicate closely with works councils and other employee forums around Europe and have two European Works Councils to brief and consult with representatives on pan-European issues.

We encourage the further interest and involvement of our people in the Group's future through reward schemes that are linked to business and individual performance. There are a number of other recognition schemes within our businesses to recognise and reward excellence, celebrating the particular commitment and achievements of our people.

Corporate social responsibility

"Our key CSR objectives and priorities: community; environment; marketplace; and workplace; are embedded into the daily lives of our people."

Ornella Barra
Chairman of the social responsibilities committee

At Alliance Boots corporate social responsibility remains a key element of our overall approach to business because it is more than simply doing the right thing; it underpins our commercial philosophy. Our approach is to ensure that our business practices are socially, environmentally and economically sustainable across the Group.

Our colleagues know and understand how important this agenda is and incorporate these principles into their daily working lives. Each year we set ourselves new targets and have established collaborative internal networks to share best practice.

The social responsibilities committee, chaired by myself, keeps under review and advises the Board on the Group's policies and practices in the area of corporate social responsibility, including issues related to the environment, health and safety, diversity and equal opportunities, race relations, employment of people with disabilities, charitable giving and ethical matters and the Group's values and standards.

Our business activities are focused on improving the health and wellbeing of the local communities we serve. Corporate social responsibility forms a natural part of the Group's business culture and we are proud of our high standards and achievements in this area.

We monitor our activities and progress through a corporate social responsibility scorecard, which is segmented into four areas: community; environment; marketplace; and workplace. In each of these areas our businesses have key objectives and priorities which are embedded into the daily activities of our people.

Partnerships are key to the way we operate and in September 2010, we launched an ambitious new charity partnership between Boots UK and Macmillan Cancer Support to offer a new level of support to people living with cancer. Together we are developing a range of initiatives, including volunteering and fundraising, with the ambition that within three years, everyone in the UK will have access to the best cancer information and support in their community.

The Group has no affiliation to any political party or group in any country and makes no political donations. During the year the Group made charitable donations totalling £1.5 million.

As in previous years, a separate 2010/11 corporate social responsibility report will be published on our website on 30 September 2011, which, for the first time, will include an independent assurance report issued by KPMG. This will give a comprehensive overview of the Group's corporate social responsibility activities and will again be written following Global Reporting Initiative guidelines and criteria.

Ornella Barra
Chief Executive, Pharmaceutical Wholesale Division
Chairman of the social responsibilities committee

Corporate social responsibility continued

In our 2009/10 corporate social responsibility report we set ourselves a series of targets to be achieved in 2010/11. A summary of our achievements against these targets is set out below.

Community

Target: To work with health bodies and government departments where we operate to deliver initiatives that improve the health and wellbeing of people in the communities in which we operate.

Achievements: We continue to launch a range of products, partnerships and services as part of our commitment to making high quality healthcare more available and accessible. Working in partnership with the NHS in the UK, our services include eye clinics, health checks and stop smoking services. In addition, Boots has 13 doctors' surgeries operating in its stores in the UK.

Target: To develop campaigns and information which support the public health agenda, particularly those most relevant to women.

Achievements: Boots has embarked on a three-year charity partnership with Macmillan Cancer Support, which aims to provide the two million people living with cancer in the UK, and their family and friends increased access to information and support. For example, in February, during Cancertalk Week, Macmillan Cancer Support and Boots hosted drop-in cancer information sessions in over 100 Boots stores across the UK. In addition, we continue to work with charities including Action for Blind People. Our UK wholesale business has a number of charity partners including The Prostate Cancer Charity, Leonard Cheshire Disability and CLIC Sargent.

Target: To share knowledge and experience across the Group via an active corporate social responsibility network, with a dedication to continuous improvement.

Achievements: We continue to promote our corporate social responsibility efforts and ensure that our approach is shared across the Group. Our network of CSR Champions is now well established and they work closely with communications and finance departments on data generation and audit. We continue to encourage sharing of ideas across the Group.

Target: To encourage employee commitment to our corporate social responsibilities activities, particularly through volunteering and charitable giving programmes.

Achievements: In 2010/11 a large number of our people across the Group were involved in volunteering activities linked to the communities we serve. Additionally, in the UK approximately 4% of Boots employees contributed to Give As You Earn schemes and approximately 470 benefited from a "Matched Giving Scheme" where the company matched the employee's donation and/or paid the administration fee.

Workplace

Target: To reinforce our approach to health and safety across the Group and decrease the number of incidents.

Achievements: This year a dedicated health and safety committee was established to manage this agenda. More detailed reporting of accidents has been introduced across the Group to prove greater insight as to the root cause of accidents and better determine what more can be done to prevent similar occurrences in the future.

In 2010/11 there were two employee fatalities, both traffic accidents when delivering pharmaceuticals, one in Turkey and one in Egypt. In addition there were 666 employee work related "over three-day" lost time accidents/injuries, a year on year decrease of 16. The vast majority of these were fractures resulting from trips or falls. More detailed information will be contained in the CSR report that will be published in September.

Target: To deliver workplace health programmes that are aligned to the businesses and local needs making a positive contribution to the health and wellbeing of our people.

Achievements: Each business is required to deliver a range of specific health related initiatives that are appropriate to their location and type of business. This year our Pharmaceutical Wholesale Division established a number of health programmes. For example, Alliance Healthcare in the Czech Republic developed a new maternity handbook to offer advice and information to staff.

Within our Health & Beauty Division, Boots Opticians provided free eye examinations to all employees and Boots Ireland put in place a new e-learning based health and safety training programme for employees. In the UK, Boots introduced a "Healthy Minds" intranet site in April 2010 and a complementary e-learning package which was completed during the year by around 5,000 colleagues. More recently, in February 2011, Boots UK launched a 'Healthy Backs' intranet site.

Target: To introduce local forms of employee feedback to all major parts of the Group.

Achievements: Employee surveys have now been introduced across Alliance Boots, other than in businesses acquired during the year. Each business' results have been reviewed by their human resources functions and senior management teams to determine key learnings and resulting actions. In addition, this information is now being shared across the human resources community so that best practice can be shared.

Marketplace

Target: To promote the understanding of approved corporate governance directives, policies and Code of Conduct and Business Ethics, and ensure that the directors and employees of Alliance Boots continue to act in accordance with these.

Achievements: During the year, in accordance with our own corporate policy, all CSR related policies were reviewed, updated as required and approved by the social responsibilities committee. The internal process by which each business manages their own CSR agenda was reviewed and approved by the local director responsible for CSR.

Target: To act with complete integrity in the development of new products and services and maintain existing standards of stewardship for those that already exist.

Achievements: Boots UK's Product Sustainability Assessment Process has been designed to evaluate the sustainability of their products against over 20 criteria. The process highlights the areas where actions can lead to the greatest improvements, as well as ensuring that Boots brand and exclusive products and ranges continue to become more sustainable over time.

Target: To raise over £1 million for charity partners across our business partners.

Achievements: In the UK nearly £2.5 million was raised during the year for Macmillan Cancer Support and over £615,000 for the BBC Children In Need Appeal. In addition to raising proceeds, we continued to focus our efforts on raising awareness of those charities we support. For example, in Russia, our people each provided a Christmas present for a child in care, while Boots Opticians in the UK recovered glasses for use in the developing world.

Target: To extend the scope of our supplier verification programme beyond the existing supplier framework to include the manufacturing sites of other suppliers of own label goods to Alliance Boots and report outcomes in our annual corporate social responsibility report.

Achievements: Boots continued to develop its award winning supplier verification programme in partnership with Business in the Community, following their independent review of Boots existing processes as reported last year. Their updated assessment process now includes additional sustainability criteria and our programme of unannounced audits has been further extended in the UK and across Western Europe. In addition Boots supplier verification process has been introduced to other Alliance Boots businesses.

Target: To support public agencies and our healthcare suppliers along the supply chain in ensuring quality and in associated areas of education and public information.

Achievements: We continue to support the public agenda by producing literature and running campaigns to increase public awareness of a number of health issues. Bootslearningstore.com is a website designed primarily for UK schools promoting healthy lifestyle messages to children and young people aged four to 16. It provides specific age-targeted information on a variety of topics to inspire young people and offers free resources that help teachers to deliver the school curriculum.

Target: To provide transparent and relevant corporate social responsibility information to our customers and stakeholders in line with GRI guidelines.

Achievements: A separate Alliance Boots 2010/11 corporate social responsibility report will be published on our website on 30 September 2011. This will give a comprehensive overview of the Group's corporate social responsibility activities and will again be written following Global Reporting Initiative guidelines. Our 2009/10 report was produced for the first time using data captured through our finance system which has increased the accuracy of the data. In the 2010/11 report, we plan to include an independent assurance report issued by KPMG and reviewed by Tomorrow's Company. In addition, Boots UK continues to publish specific corporate social responsibility information relevant to its retail customers and UK stakeholders on its own website, www.boots-uk.com.

Environment

Target: To improve sustainability of our business operations with a particular dedication to the reduction of our carbon footprint, reporting outcomes in the annual corporate social responsibility report and in line with GRI guidelines.

Achievements: Across Alliance Boots we understand that reducing our carbon footprint is not the responsibility of a handful of people that pursue specific initiatives but the responsibility of all of us; wherever we work. All of our people are encouraged to think about ways they might be able to amend their working practices so that our business can use less carbon and become more sustainable. These include heating and lighting stores, transport and business travel. We also work with a variety of other organisations to share our best practice and also learn from them; these include the Carbon Trust, Forum For The Future and the Mayday Network. All of our businesses are being encouraged to achieve ISO 14001 and our Czech Republic wholesale business was accredited in April 2010 without any non-conformances. During the year we also continued with programmes to reduce waste and recycling, increase biodiversity and reduce water consumption.

Marco Pagni
Group Legal Counsel & Chief Administrative Officer
Director responsible for the leadership of Health & Safety

Board of Directors

The Board comprises the Executive Chairman, four other executive Directors, three Directors representing KKR and four non-executive Directors.

The principal Board committees are:

- audit committee
- remuneration committee
- social responsibilities committee

Stefano Pessina
Executive Chairman • •
Stefano Pessina was appointed Executive Chairman of Alliance Boots in July 2007 having previously been its Executive Deputy Chairman. Prior to the merger of Alliance UniChem and Boots Group he was Executive Deputy Chairman of Alliance UniChem, previously having been its Chief Executive for three years up until December 2004. Stefano was appointed to the Alliance UniChem Board in 1997 when UniChem merged with Alliance Santé, the Franco-Italian pharmaceutical wholesale group which he established in Italy in 1977. He is an engineer by profession.

George Fairweather
Group Finance Director
George Fairweather was appointed Group Finance Director of Alliance Boots in July 2006 having joined Alliance UniChem in the same position in 2002. Previously he was Group Finance Director of Elementis and Dawson International. Earlier in his career he worked for Dixons Group, Procter & Gamble and KPMG Thomson McLintock. George is a member of The Institute of Chartered Accountants of Scotland.

Dominic Murphy
Kohlberg Kravis Roberts •
Dominic Murphy is a Partner of Kohlberg Kravis Roberts & Co. L.P. (KKR). He is head of its healthcare industry team in Europe and responsible for the development of KKR's activities in the UK and Ireland. He was appointed to the Board of Alliance Boots in July 2007 and is also a member of the Board of Ambea. Since joining KKR in 2005 he has played a significant role in the investments in Alliance Boots, Ambea and SBS Broadcasting. Dominic was formerly a Partner at Cinven, a large European-based private equity firm. From 1994 to 1996, Dominic was an investment manager with 3i.

Mattia Caprioli
Kohlberg Kravis Roberts •
Mattia Caprioli is a Partner of Kohlberg Kravis Roberts & Co. L.P. (KKR). He is head of its services industry team in Europe, and responsible for the development of KKR's activities in Italy and Turkey. He was appointed to the Board of Alliance Boots in July 2007 and is also a member of the Board of Legrand and INAER. Since joining KKR in 2001 he has been actively involved in the investments in Alliance Boots, AVR/Van Gansewinkel, Legrand, PagesJaunes, Selenia, Toys 'R' Us, INAER and Bond Aviation. Previously Mattia worked for Goldman Sachs International.

Sergio D'Angelo
Kohlberg Kravis Roberts
Sergio D'Angelo is a Director of Kohlberg Kravis Roberts & Co. L.P. (KKR). He was appointed to the Board of Alliance Boots in March 2008. Since joining KKR in 2005 he has been involved in the investments in Alliance Boots, SBS Broadcasting, Selenia, NXP (formerly Philips Semiconductor), ProSiebenSat.1 and INAER. Previously Sergio worked for BC Partners and Citigroup.

Marco Pagni
Group Legal Counsel & Chief Administrative Officer •

Marco Pagni is Group Legal Counsel & Chief Administrative Officer having been appointed a Director of Alliance Boots in July 2007. Previously he was General Counsel and Company Secretary of Alliance Boots having joined Alliance UniChem in the same position in 2003. Prior to this Marco held senior management positions in McDonalds and Texas Instruments having started his career as a law lecturer at Oxford University before being admitted to the Bar.

Ornella Barra
Chief Executive, Pharmaceutical Wholesale Division •

Ornella Barra was appointed Chief Executive of the Pharmaceutical Wholesale Division in January 2009, having previously been Wholesale & Commercial Affairs Director. Prior to the merger of Alliance UniChem and Boots Group she was executive Director of Alliance UniChem with wholesale and commercial affairs responsibilities, having been appointed to its Board in 1997 when Alliance Santé merged with Alliance UniChem. Before that she was a Director of Alliance Santé and General Manager of Alleanza Salute Italia. She is a pharmacist and a special professor at the University of Nottingham's School of Pharmacy.

Alex Gourlay
Chief Executive, Health & Beauty Division

Alex Gourlay was appointed to the Board of Alliance Boots in January 2009 when he became Chief Executive of the Health & Beauty Division. He was previously Managing Director of Boots UK and a member of the Group operating committee following the acquisition of Alliance Boots plc by AB Acquisitions Limited in 2007. Prior to this he was Healthcare Director of Boots the Chemists, having held senior management positions in store operations and human resources. He is a pharmacist and a member of the Royal Pharmaceutical Society of Great Britain.

Nick Land
Non-executive Director • •

Nick Land was appointed as a non-executive Director in March 2008, is Chairman of the audit committee and is a member of the social responsibilities committee. Nick is a non-executive director of Vodafone Group, BBA Aviation, Ashmore Group and the Financial Reporting Council. He is also Chairman of the Board of Trustees of the Vodafone Group Foundation and of Farnham Castle and a member of the Advisory Board of Alsbridge. Previously he was a partner and Chairman of Ernst & Young in the UK and a member of its Global Executive Board. He is a member of the Institute of Chartered Accountants in England and Wales.

Chris Britton
Non-executive Director •

Chris Britton was appointed as a non-executive Director in June 2008 and is a member of the social responsibilities committee. Chris is Chief Executive Officer of Findus Group, a major European food business. Previously he was an Executive Board Member and President – Baby Food Division of Royal Numico, a Netherlands-based publicly listed multinational infant and clinical nutrition group. Before that he worked for Diageo in various marketing and general management positions, latterly as Global Marketing Director.

Tony De Nunzio CBE
Non-executive Director • •

Tony De Nunzio was appointed as a non-executive Director in June 2008, is Chairman of the remuneration committee and is a member of the audit committee. Tony is Executive Chairman of Maxeda, a Netherlands-based international retail group in which KKR funds hold a significant investment, and non-executive Chairman of Pets at Home, the UK retailer owned by KKR funds. Tony is also a Senior Advisor to KKR on retail matters. Prior to Maxeda, Tony was President and Chief Executive Officer of Asda having previously been Chief Financial Officer. He also worked for Unilever, L'Oréal and PepsiCo in various finance positions.

Etienne Jornod
Non-executive Director

Etienne Jornod was appointed as a non-executive Director in March 2008. Etienne, who is based in Switzerland, is Chairman and Chief Executive Officer of Galenica, an associate company, and was a non-executive director of Alliance UniChem for six years until its merger with Boots Group.

Board report on corporate governance

The Board considers that good corporate governance is an essential element of achieving its overall objectives. The Group's corporate governance policies and practices continue to be reviewed by the Board on a regular basis. This report, together with the audit committee report and the Board report on remuneration, sets out the governance structures adopted by the Board.

The Board

At 31 March 2011 the Board comprised the Executive Chairman, four other executive Directors, three Directors representing KKR and four non-executive Directors. During the year the Board reviewed the composition of the Board and the balance of skills, knowledge and experience its members bring, and concluded that the Board has the appropriate balance for the Company. During the year Andy Hornby resigned from the Board of the Company.

Details of the executive Directors' service contracts are given on page 55 of the Board report on remuneration.

Biographies and other details of Board members are shown on pages 50 and 51.

During the year, the Board formally evaluated its own performance and that of the Board committees. The evaluation was carried out by an independent consultant. This process was in the form of one-to-one meetings between the independent consultant and each member of the Board and the Company Secretary. Issues arising from the performance evaluation were presented to the Board by the Executive Chairman with an action plan to ensure continuous improvement in the operation of the Board and its committees and between the non-executive Directors and management.

Non-executive Directors are appointed for an initial term of three years which is then renewed and extended for not more than two further three year terms. Nick Land, Tony De Nunzio, Chris Britton and Etienne Jornod were all appointed to the Board in 2008. Following a review of their performance by the Executive Chairman, it was concluded that each continued to contribute effectively and with proper commitment, devoting adequate time to carry out their duties. The Board approved the recommendation that each of the non-executive Directors be re-elected for a further three year term.

The Board has a programme which enables it to discharge its responsibility to provide leadership to the Company within a framework of prudent and effective controls and to assess and manage risk. The Board has six regular meetings scheduled in the year, including one strategy meeting, with other meetings convened as required.

There is an approved schedule of matters reserved for decision by the Board with related delegated authorities. These matters cover strategy and business plans, share capital and dividends, Board committees, remuneration and employment benefits, corporate reporting, capital and revenue commitments, corporate governance, internal control and risk management, and corporate and social responsibilities.

For all Board meetings an agenda is established. For regular meetings this generally comprises reports on the financial performance of the Group and its Divisions, approval of major items of capital expenditure and acquisitions, and other significant policy issues. The Board receives reports from the committees of the Board to enable it to be informed of and supervise the matters within their remit. Appropriate papers are provided to the Directors in advance of each Board meeting. In addition the Board considers at least annually the strategic plans of the Group and its Divisions and, from time to time, Directors receive presentations from management concerning key areas of the Group's operations. The Annual Report, which includes the consolidated financial statements, is reviewed by the audit committee and approved by the Board prior to publication.

In the furtherance of their duties, the Directors have full access to the services of the Company Secretary and may take independent professional advice at cost to the Company. In addition, each of the committees of the Board is entitled to take independent professional advice as appropriate. The Company maintains appropriate directors and officers insurance in respect of legal action against its Directors and has granted deeds of indemnity to each of the Directors and to the Company Secretary.

The Company provides a tailored induction programme for all Directors on appointment. The induction programme includes details of Board and Group policies and procedures, information and briefings by members of management on the Group's businesses and operations, and visits to retail stores, distribution centres, manufacturing facilities and other operations on a selective basis.

The Board is regularly updated on developments relating to the Group's activities, corporate governance and other matters of relevance, and non-executive Directors visit the Group's operations periodically.

Board committees

There are three principal Board committees, all of which operate within written terms of reference. Copies of the terms of reference are published on the Company's website at www.allianceboots.com in the corporate governance section. Details of the membership of committees are set out below. Only members of each committee are entitled to attend committee meetings, although each committee may invite other Directors, managers and advisors to attend and frequently do so.

Remuneration committee

The Directors who are members of the committee are as follows:

- Tony De Nunzio (Chairman)
- Stefano Pessina
- Dominic Murphy

The role of the committee and details of how it carried out its duties are set out in the Board report on remuneration on pages 54 to 56.

Audit committee

The Directors who are members of the committee are as follows:

- Nick Land (Chairman)
- Tony De Nunzio
- Stefano Pessina
- Mattia Caprioli

The role of the committee and details of how it carried out its duties are set out in the audit committee report on page 57.

Social responsibilities committee

The Directors who are members of the committee are as follows:

- Ornella Barra (Chairman)
- Nick Land
- Chris Britton
- Marco Pagni

The role of the committee and how it carried out its duties is summarised in the corporate social responsibility section of this report on pages 47 to 49. A more detailed description of the role of the committee is included in the corporate social responsibility report which will be published on 30 September 2011 on the Company's website at www.allianceboots.com. In addition, the Group's environment, health and safety, charity, product testing, customer safety and diversity statements are all published on the Company's website in the corporate governance section under the social responsibilities committee.

The executive committee, which has responsibility for the day to day management of the Group, is chaired by Stefano Pessina and comprises the executive Directors and two Directors representing KKR.

A Code of Conduct and Business Ethics, approved by the social responsibilities committee and the Board, sets out the ethics, principles and standards which are required to be consistently upheld by each Division, business and corporate function within the Group. This Code is published on the Company's website at www.allianceboots.com in the corporate governance section.

Internal control

The Directors have overall responsibility for the Group's system of risk management and internal control and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board considers an efficient risk management and control framework with an actively managed balance of risk and reward to be fundamental to the Company achieving its corporate objectives. The effectiveness of the ongoing process to identify, evaluate and manage significant risks is reviewed annually by the audit committee on behalf of the Board. The committee also has responsibility for overseeing management action needed to remedy any shortcomings or weaknesses identified. Further details of our significant risks, together with the steps we take where necessary to mitigate them, are set out in the risk management section of this report on pages 44 and 45.

Members of the Board have responsibility for monitoring the conduct and operations of the Divisions and individual businesses within the Group. This includes the review and approval of Division and individual business strategies and plans and the setting of key performance targets. The executive management responsible for each Division and business are accountable for the conduct and performance of their Division and business within the agreed strategies.

Details of the key elements of the Group's system of internal controls are set out on the Company's website at www.allianceboots.com in the corporate governance section.

Social, environmental and ethical matters

The Company recognises the benefits that accrue from responsible employment, environmental and community policies which are also described elsewhere in this report.

Going concern

Further information on the Group's activities, together with the factors likely to affect our future performance, are set out in the "our business activities", "Group strategy and objectives", "our markets and business environment" and 'Business review' sections of this report on pages 4 and 5, 10 and 11, 14 and 15, and 18 to 35 respectively.

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future, and have therefore continued to adopt the going concern basis for preparing the consolidated financial statements contained in this Annual Report.

Ownership of the Company

The Company, a Group holding company established in Switzerland in 2008, is a direct subsidiary of AB Acquisitions Holdings Limited, the Gibraltar investment vehicle jointly controlled by Alliance Santé Participations S.A. and four private equity investment vehicles advised by Kohlberg Kravis Roberts & Co L.P. (KKR): KKR 2006 Fund (Overseas), Limited Partnership, KKR European Fund II, Limited Partnership, KKR PEI International Holdings L.P. and KKR European Co-Invest Fund I L.P.

KKR is one of the world's longest established and most experienced private equity firms. During the last three decades KKR has managed and sponsored 14 private equity funds that have received capital commitments of more than $59 billion. During that time KKR has completed more than 170 transactions with an aggregate value of more than $425 billion, including significant investments in the healthcare and retail sectors. Dominic Murphy, Mattia Caprioli and Sergio D'Angelo are the KKR executives who, together with the other members of the Board, have responsibility for oversight of the Company.

Stefano Pessina and Ornella Barra, who serve on the Board of the Company, are also directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

Frank Standish
Company Secretary
12 May 2011

Board report on remuneration

The remuneration committee consists of three Directors, Tony De Nunzio (committee Chairman), Stefano Pessina and Dominic Murphy. The committee is scheduled to meet twice each year. The terms of reference for the committee are published on the Company's website at www.allianceboots.com in the corporate governance section.

The main responsibilities of the committee, which are set out in the terms of reference, are to:

- determine and agree with the Board the remuneration policy for executive Directors;
- determine on the Board's behalf the individual remuneration packages for each executive Director; and
- in relation to performance related pay schemes for executive Directors, to:
  - set appropriate performance targets;
  - approve amendments to performance related pay schemes; and
  - consider and review the terms of new performance related pay schemes.

Policy overview

The philosophy of the committee is to:

- provide a total reward package designed to retain executive Directors of the highest calibre;
- set basic salaries at competitive levels in the relevant market to help ensure that the Company is able to attract and retain executive Directors of the required standard; and
- set total remuneration at the market median for sustained levels of good performance and upper quartile for superior financial and personal performance.

No Director is permitted to vote in respect of his or her own remuneration or to be present when his or her remuneration is being discussed.

Executive remuneration comprises the following key elements:

- basic salary;
- short term bonus scheme;
- pension supplement; and
- other benefits.

Each of these elements is described in this report:

Basic salary

Basic salaries paid to executive Directors for the year ended 31 March 2011 are detailed in the emoluments section on page 56.

Executive Directors' salaries are reviewed shortly after the end of each financial year and are set taking into account individual performance, market rates and the size and complexity of the Group. These reviews, conducted with the assistance of remuneration consultants, assess the competitiveness of the executive Directors' remuneration against the UK FTSE 100 (excluding financial services and oil companies). Basic salaries following the latest review, which will be effective from June 2011, are as follows:

Director	£
S. Pessina	600,000
O. Barra	485,000
G.R. Fairweather	540,000
A. Gourlay	485,000
M. Pagni	455,000

Short term bonus scheme

Stefano Pessina does not participate in the short term bonus scheme for executive Directors. The short term bonus scheme for other executive Directors in 2010/11 provided a maximum bonus potential of 125% of annual basic salary. 60% of the bonus was dependent on Group trading profit and 40% on personal performance.

Short term bonus amounts earned by each executive Director for the year ended 31 March 2011 are detailed in the emoluments section on page 56.

Pension

Pension entitlements for executive Directors, where applicable, are calculated on basic salary only.

Stefano Pessina has no pension arrangement from the Group.

Ornella Barra was an active member of a tax approved pension scheme into which defined contributions were made by the Group until this plan was closed to future accrual on 30 June 2010. Subject to Ornella Barra only selecting investments offered by the scheme, a pension of 1/30th of basic salary for pensionable service from 1 January 2001 to 30 June 2010 plus 1/45th of basic salary from 1 January 1999 to 31 December 2000 is guaranteed to be payable at retirement age. Depending on the scheme's funding position, the Group may in future be required to make further contributions to meet the past service liabilities of the closed scheme. Following the closure of the Alliance UniChem Group Pension Scheme in June 2010, Ornella Barra has no pension arrangements from the Group and receives a payment equal to 40% of her basic salary in lieu of participation in any pension scheme of the Group.

George Fairweather was an active member of the Alliance UniChem Group UK Pension Scheme until 30 June 2010 when this scheme was closed to future accrual for all members. In late 2010, the Company triggered the winding up of that scheme. As a consequence, George Fairweather, in common with all other defined benefit members, was issued with an individual policy with Pensions Insurance Corporation, an independent insurance company, and no longer retains any benefits in that scheme. He was also previously a deferred member of the Alliance UniChem 1993 Pension Scheme but elected to receive his benefits as a cash sum during the year. Following the closure of the scheme in June 2010, George Fairweather has no pension arrangements from the Group and receives a payment equal to 40% of his basic salary in lieu of participation in any pension scheme of the Group.

Alex Gourlay was an active member of both the Boots Pension Scheme and the Boots Supplementary Pension Plan, which are defined benefit schemes, up until 30 June 2010 when both schemes were closed to future accrual for all members. He is now a deferred member in both of these schemes. Following the closure of the schemes in June 2010, Alex Gourlay has no pension arrangements from the Group and receives a payment equal to 15% of his basic salary in lieu of participation in any pension scheme of the Group.

Marco Pagni was a deferred member of the money purchase section of the Alliance UniChem Group UK Pension Scheme. As part of the process of winding up this scheme, he elected to transfer his deferred benefits, which were equivalent to the value of contributions paid and accumulated investment returns, to a policy in his own name with an insurance company. Since May 2006, Marco Pagni has no pension arrangements from the Group and receives a payment equal to 40% of his basic salary at that date with an inflation related adjustment.

Andy Hornby had no pension arrangement from the Group and received a payment equal to 40% of his basic salary in lieu of participation in any pension scheme of the Group whilst in employment.

Other benefits

Executive Directors are entitled to a company car or car allowance and other benefits comparable to those provided by other major companies. Stefano Pessina and Ornella Barra are reimbursed the cost of travel to and from work, accommodation and subsistence while working for the Group. Up until 25 November 2010 George Fairweather participated in a funded unapproved death benefit scheme which provided benefits on death comparable to those contained in the Group's approved pension schemes. Alex Gourlay receives a mortgage equalisation allowance as part of a relocation package obtained in 2006 prior to his appointment as a Director. During the year, Andy Hornby was reimbursed the cost of travel to and from work. The provision of these benefits reflects market practice and does not relate to performance. The value of these benefits for each Director serving during the year, including expenses chargeable to income tax, are detailed in the emoluments section on page 56. Where a Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

Service contracts

Each of the executive Directors has a service contract. Details of the contracts of executive Directors in office at 31 March 2011 are as follows:

Director	Date of contract	Notice period by Alliance Boots	Notice period by Director
S. Pessina	22 December 2009	1 year	6 months
O. Barra	31 July 2006	1 year	6 months
G.R. Fairweather	31 July 2006	1 year	1 year
A. Gourlay	29 January 2009	1 year	1 year
M. Pagni	1 June 2005	6 months	6 months

There are provisions in the service contracts for payment of current basic salary in lieu of the required notice period to terminate a service contract. The committee's policy on termination of executive Directors' service contracts is that in the event of any service contract being terminated by Alliance Boots, the requirement for the Director to mitigate their loss is taken into account in determining any resulting compensation.

Directors representing KKR

With effect from June 2011 the fees paid to each Director representing KKR will increase from £20,000 per annum to £65,000 per annum.

Non-executive Directors

Each of the non-executive Directors has a written letter of appointment with the Company, terminable by either party with one month's notice. These letters also set out the expected time commitment.

Non-executive Directors were appointed for an initial term of three years and, subject to performance, are re-appointed where appropriate. Nick Land, Tony De Nunzio, Chris Britton and Etienne Jornod who were appointed to the Board in 2008 were required to be re-elected in 2011. Following a review of their performance by the Executive Chairman it was concluded that each of the non-executive Directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties. On 12 May 2011 the Board approved the recommendation that each of the non-executive Directors be re-elected for a further three year term.

Director	Initial appointment date	Reappointment date
C. Britton	4 June 2008	12 May 2011
A. De Nunzio	4 June 2008	12 May 2011
E. Jornod	31 March 2008	12 May 2011
N.C.E. Land	31 March 2008	12 May 2011

The basic fee paid to each non-executive Director for the year ended 2011 was £50,000 per annum. In addition Nick Land receives a fee of £20,000 per annum for chairing the audit committee. Non-executive Directors do not participate in any pension scheme or bonus arrangements but are reimbursed travel, subsistence and accommodation costs. Non-executive Directors' fees are reviewed shortly after the end of each financial year. These reviews assess the competitiveness of the non-executive Directors' fees against the UK FTSE 100 (excluding financial services and oil companies). Following the latest review, the basic fee payable to each of the non-executive Directors is to be increased to £65,000 per annum with effect from June 2011.

Board report on remuneration continued

Emoluments

An analysis of executive Directors' emoluments relating to salaries and fees, short term bonuses, pension supplements and other benefits for the year ended 31 March 2011 are shown in the table below:

Director	Salaries and fees £'000	Short term bonuses £'000	Pension supplements £'000	Other benefits £'000	Total emoluments excluding pensions and one-off payments 2011 £'000	2010 £'000
S. Pessina	600	–	–	93	693	666
O. Barra	463	535	141	91	1,230	1,012
G.R. Fairweather	522	597	158	23	1,300	1,052
A. Gourlay	458	535	53	23	1,069	893
M. Pagni	433	501	159	23	1,116	1,001
A. Hornby[1]	842	750	337	41	1,970	1,679
	3,318	2,918	848	294	7,378	6,303

1 Andy Hornby resigned from the Board on 25 March 2011, figures shown for him exclude a non-compete payment of £450,000.

Pension entitlement

Details of pensions earned by executive Directors in office at 31 March 2011:

Director	Accrued pension at 31 March 2011 £'000	Increase in accrued pension during the year £'000	Decrease in accrued pension during the year net of inflation £'000	Money purchase contributions during the year £'000	Transfer value of accrued benefits at 31 March 2010 £'000	Transfer value of accrued benefits at 31 March 2011 £'000	Increase/ (decrease) in transfer value of benefits less Directors' contributions £'000	Transfer value of accrued benefits less Directors' contributions net of inflation £'000
O. Barra	–	–	–	68	–	–	–	–
G.R. Fairweather	–	6	–	–	2,785	–	–	–
A. Gourlay	183	5	(4)	–	3,687	3,732	45	3,544

The scheme of which George Fairweather was a member was closed to future accrual on 30 June 2010. Following the issue to him in February 2011 of an individual policy from Pension Insurance Corporation he ceased membership of the scheme and no longer has any benefits from it.

The accrued pension for Alex Gourlay is based on his service to 30 June 2010 when the schemes of which he was a member were closed to future accrual. The transfer value varies in line with age, changes to accrued pensions and the methodologies set by the trustees of the schemes.

The increase in accrued pensions and transfer values during the year are shown net of inflation at an annual rate of 5.3% for 2010/11.

Tony De Nunzio
Chairman of the remuneration committee
12 May 2011

Audit committee report

The audit committee consists of four Directors, of which at least half, including the committee Chairman who has a casting vote, must be non-executive Directors. The committee members are Nick Land (committee Chairman), Tony De Nunzio, Stefano Pessina and Mattia Caprioli. The Group Finance Director, the Group Financial Controller, the Director of Internal Audit & Risk Management and representatives from the external auditors are normally invited to attend meetings as appropriate. In addition, Dominic Murphy, Andy Hornby, and Marco Pagni attended meetings during the year. The committee is scheduled to meet four times each year.

The Director of Internal Audit & Risk Management has the right of direct access to the committee and the Executive Chairman of the Company. The committee has the right to seek and receive any information it requires to fulfil its duties and all Directors and employees are directed to co-operate with any request made by the committee and to attend on demand any meeting of the committee to answer questions.

At each meeting the non-executive Directors on the committee meet the Director of Internal Audit & Risk Management and representatives from the external auditors without executive management or the Director representing KKR present. Following each committee meeting the Chairman of the committee reports material matters to the Board at the next available opportunity.

Nick Land, the Chairman of the committee, was a partner and Chairman of Ernst & Young in the UK up until his retirement from the firm in 2006. He is currently chairman of the audit committee of a large company listed on the London Stock Exchange, is a non-executive director of the Financial Reporting Council and is a member of the Institute of Chartered Accountants of England and Wales. Accordingly, he is considered to have recent relevant financial experience.

Terms of reference

The terms of reference for the committee, which are reviewed at least annually by the committee, are published on the Company's website at www.allianceboots.com in the corporate governance section.

Operation of the audit committee

In addition to its regular work programme, particular issues the committee reviewed during the year included:

- tax management and compliance;
- the control environment for the implementation of new finance systems in Boots UK; and
- related party transactions.

During the year, the audit committee undertook a selection process for the appointment of an external auditor which included the existing auditor, KPMG AG. Following the completion of that process, the audit committee made a recommendation to the Board to re-appoint KMPG AG.

Policy on non-audit services

As part of its remit, the committee keeps under review the nature and extent of audit and non-audit services provided to the Group by the external auditor, KPMG AG. The committee has a formal policy for the approval of non-audit services provided by the external auditor which it reviews on an annual basis. A copy of this policy, which sets out a full list of permitted non-audit services, is published on the Company's website at www.allianceboots.com in the corporate governance section under audit committee.

The list of prohibited non-audit services may only be varied by the audit committee. Under this policy it has been agreed that, due to their significant understanding of the Group and its businesses (therefore ensuring cost efficiency and confidentiality), the external auditors may be engaged for certain non-audit services. This includes advice on tax matters, recent developments and/or complex or high risk areas, and due diligence activities associated with potential acquisitions or disposals of businesses.

The policy requires the fees for these permitted non-audit services to be approved in advance by the committee. Where such services are considered to be recurring in nature, such as for tax and due diligence, approval may be sought for the full financial year at the beginning of that year. Approval for other permitted non-audit services has to be sought on a case by case basis. Where no committee meeting is scheduled within an appropriate time frame, the approval is to be sought from the Chairman of the committee.

Policy on employment of former employees of the external auditor

As part of its remit, the committee keeps under review the objectivity, independence and effectiveness of the external auditor. A copy of the Group's policy on employment of former employees of the external auditor, as approved by the audit committee, is published on the Company's website at www.allianceboots.com in the corporate governance section under audit committee.

Whistleblowing

During the year a review of the effectiveness of the Group's whistleblowing arrangements was carried out. Following that review, InTouch were appointed to operate 24 hour confidential reporting services in the UK and the Republic of Ireland. Confidential reports from these services are provided to designated senior executives, including the Company Secretary, who in turn report cases to the audit committee. The committee monitors these cases until resolution is complete. Throughout the rest of the Group, the Company's whistleblowing policy sets out arrangements whereby employees can report to the Company Secretary any concerns or suspicions about possible wrongdoing in financial reporting or other matters, which are reported to the committee.

Nick Land
Chairman of the audit committee
12 May 2011

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report, which incorporates the consolidated financial statements, in accordance with Swiss law and regulations.

In preparing consolidated financial statements, the Directors have:
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepared the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for:
- keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group;
- taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the financial information included on the Company's website.

Statutory auditor's report

to the general members meeting of Alliance Boots GmbH

Report on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Alliance Boots GmbH, which comprise the Group income statement, Group statement of comprehensive income, Group statement of financial position, Group statement of changes in equity, Group statement of cash flows and related notes (pages 60 to 109) for the year ended 31 March 2011.

Directors' responsibility

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Directors are further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 March 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRSs) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Directors.

We recommend that the consolidated financial statements submitted to you be approved.

We read the other information contained in pages 1 to 58 and are not aware of any material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

KPMG AG

Richard Pinckard
Licensed Audit Expert
Auditor in Charge
Zug, Switzerland
12 May 2011

Dr. Elisabeth Kruck
Licensed Audit Expert

Group income statement

for the year ended 31 March 2011

	Notes	2011 £million	2010 Re-presented £million
Continuing operations:			
Revenue	4	**20,218**	17,571
Profit from operations before associates and joint ventures	4,5	**944**	667
Share of post tax earnings of associates and joint ventures	6,17	**73**	98
Impairment of investments in associates	6,17	**(4)**	–
Net gain on acquisitions of controlling interests in associates	6,17	**19**	–
Profit from operations	4,6,7	**1,032**	765
Finance income	6,9	**312**	393
Finance costs	6,10	**(707)**	(698)
Profit before tax		**637**	460
Tax	6,11	**(25)**	136
Profit for the year from continuing operations		**612**	596
Discontinued operations:			
Profit for the year from discontinued operations	12	**3**	8
Profit for the year		**615**	604
Attributable to:			
Equity shareholders of the Company		**595**	608
Non controlling interests		**20**	(4)
		615	604

Group statement of comprehensive income

for the year ended 31 March 2011

	Notes	2011 £million	2010 £million
Profit for the year		**615**	604
Other comprehensive income for the year			
Net exchange differences on translation of non-Sterling denominated operations		**(27)**	35
Defined benefit schemes – net actuarial gains/(losses) net of surplus restriction	36	**145**	(694)
Fair value losses on cash flow hedging instruments net of amounts recycled		**–**	(1)
Movements on available-for-sale reserve including amounts recycled		**(9)**	30
Share of post tax other comprehensive income of associates and joint ventures		**6**	(10)
		115	(640)
Tax on other comprehensive income for the year	11	**(15)**	194
		100	(446)
Total comprehensive income for the year		**715**	158
Attributable to:			
Equity shareholders of the Company		**710**	163
Non controlling interests		**5**	(5)
		715	158

Group statement of financial position

as at 31 March 2011

	Notes	2011 £million	2010 £million
Assets			
Non-current assets			
Goodwill	13	**4,815**	4,649
Other intangible assets	14	**5,630**	5,456
Property, plant and equipment	16	**2,069**	2,091
Investments in associates and joint ventures	17	**838**	1,143
Available-for-sale investments	18	**67**	80
Other receivables	20	**266**	153
Deferred tax assets	24	**17**	227
Derivative financial instruments	26	**36**	10
		13,738	13,809
Current assets			
Inventories	19	**2,069**	1,623
Trade and other receivables	20	**3,530**	2,610
Cash and cash equivalents	21	**629**	343
Restricted cash	22	**285**	349
Derivative financial instruments	26	**–**	1
Assets classified as held for sale	23	**3**	9
		6,516	4,935
Total assets		**20,254**	18,744
Liabilities			
Current liabilities			
Borrowings	26	**(274)**	(556)
Trade and other payables	25	**(4,603)**	(3,377)
Current tax liabilities		**(10)**	(49)
Provisions	30	**(59)**	(37)
Derivative financial instruments	26	**(66)**	–
		(5,012)	(4,019)
Net current assets		**1,504**	916
Non-current liabilities			
Borrowings	26	**(8,274)**	(8,322)
Other payables	25	**(275)**	(92)
Deferred tax liabilities	24	**(1,109)**	(1,251)
Retirement benefit obligations	36	**(223)**	(462)
Provisions	30	**(58)**	(44)
Derivative financial instruments	26	**(179)**	(214)
		(10,118)	(10,385)
Net assets		**5,124**	4,340
Equity			
Share capital	31	**1,065**	1,065
Share premium		**2,795**	2,795
Retained earnings		**939**	239
Other reserves	32	**(15)**	212
Shareholders' equity		**4,784**	4,311
Non controlling interests		**340**	29
Total equity		**5,124**	4,340

Group statement of changes in equity

for the year ended 31 March 2011

2011	Shareholders' equity					Non controlling interests £million	Total equity £million
	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million		
At 1 April 2010	**1,065**	**2,795**	**239**	**212**	**4,311**	**29**	**4,340**
Profit for the year	–	–	**595**	–	**595**	**20**	**615**
Other comprehensive income for the year							
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	**(12)**	**(12)**	**(15)**	**(27)**
Defined benefit schemes – net actuarial gains net of surplus restriction	–	–	**145**	–	**145**	–	**145**
Movements on available-for-sale reserve including amounts recycled	–	–	–	**(9)**	**(9)**	–	**(9)**
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	**6**	**6**	–	**6**
Tax on other comprehensive income for the year	–	–	**(40)**	**25**	**(15)**	–	**(15)**
	–	–	**105**	**10**	**115**	**(15)**	**100**
Total comprehensive income for the year	–	–	**700**	**10**	**710**	**5**	**715**
Transactions with owners							
Transfer from special reserve	–	–	–	**34**	**34**	**(34)**	–
Non controlling interests in businesses acquired	–	–	–	–	–	**464**	**464**
Liability to acquire equity stakes from non controlling interests	–	–	–	**(362)**	**(362)**	–	**(362)**
Future dividend obligations to non controlling interests	–	–	–	–	–	**(28)**	**(28)**
Dividends paid to non controlling interests	–	–	–	–	–	**(18)**	**(18)**
Purchase of non controlling interests	–	–	–	**91**	**91**	**(92)**	**(1)**
Non controlling interests in businesses disposed	–	–	–	–	–	**(12)**	**(12)**
Contribution from non controlling interests	–	–	–	–	–	**26**	**26**
	–	–	–	**(237)**	**(237)**	**306**	**69**
At 31 March 2011	**1,065**	**2,795**	**939**	**(15)**	**4,784**	**340**	**5,124**

2010	Shareholders' equity					Non controlling interests £million	Total equity £million
	Share capital £million	Share premium £million	Retained earnings £million	Other reserves £million	Total £million		
At 1 April 2009	1,065	2,795	131	191	4,182	42	4,224
Profit for the year	–	–	608	–	608	(4)	604
Other comprehensive income for the year:							
Net exchange differences on translation of non-Sterling denominated operations	–	–	–	36	36	(1)	35
Defined benefit schemes – net actuarial losses	–	–	(694)	–	(694)	–	(694)
Fair value losses on cash flow hedging instruments net of amounts recycled	–	–	–	(1)	(1)	–	(1)
Net movements on available-for-sale reserve	–	–	–	30	30	–	30
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	(10)	(10)	–	(10)
Tax on other comprehensive income for the year	–	–	194	–	194	–	194
	–	–	(500)	55	(445)	(1)	(446)
Total comprehensive income for the year	–	–	108	55	163	(5)	158
Transactions with owners:							
Non controlling interests in businesses acquired	–	–	–	–	–	32	32
Future dividend obligations to non controlling interests	–	–	–	(30)	(30)	(32)	(62)
Transfer to special reserve	–	–	–	(4)	(4)	4	–
Purchase of non controlling interests	–	–	–	–	–	(15)	(15)
Contribution from non controlling interests	–	–	–	–	–	3	3
	–	–	–	(34)	(34)	(8)	(42)
At 31 March 2010	1,065	2,795	239	212	4,311	29	4,340

Owners comprise equity shareholders of the Company and non controlling interests.

Group statement of cash flows

for the year ended 31 March 2011

	Note	2011 £million	2010 Re-presented £million
Operating activities			
Profit from operations:			
Continuing operations		**1,032**	765
Discontinued operations		**7**	20
		1,039	785
Adjustments to reconcile profit from operations to cash generated from operations:			
Share of post tax earnings of associates and joint ventures		**(73)**	(99)
Depreciation and amortisation		**364**	359
Negative goodwill		**(16)**	–
Net gain on disposal of property, plant and equipment		**(24)**	–
Net gain on disposal of assets classified as held for sale		**–**	(2)
Impairment of investments in associates and goodwill		**4**	121
Net gain on acquisitions of controlling interests in associates		**(19)**	–
Increase in inventories		**(48)**	(73)
Increase in receivables		**(6)**	(40)
Increase in payables and provisions		**261**	143
Movement in retirement benefit assets and obligations		**(173)**	(64)
Cash generated from operations		**1,309**	1,130
Tax paid		**(59)**	(14)
Net cash from operating activities		**1,250**	1,116
Investing activities			
Acquisition of businesses		**(222)**	(11)
Cash and cash equivalents of businesses acquired net of overdrafts		**363**	–
Disposal of businesses		**62**	–
Overdrafts of businesses disposed net of cash and cash equivalents		**114**	–
Purchase of property, plant and equipment, and intangible assets		**(253)**	(255)
Purchase of available-for-sale investments		**(1)**	(12)
Purchase of profit participating notes		**(119)**	(36)
Loans advanced net of repayments		**(40)**	(3)
Disposal of property, plant and equipment, and intangible assets		**86**	14
Disposal of available-for-sale investments		**–**	2
Disposal of assets classified as held for sale		**7**	25
Dividends received from associates and joint ventures		**17**	39
Dividends received from available-for-sale investments		**2**	1
Interest received		**77**	49
Net cash from/(used in) investing activities		**93**	(187)
Financing activities			
Interest paid		**(377)**	(393)
Interest element of finance lease obligations		**(1)**	(2)
Proceeds from borrowings		**23**	39
Repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives		**(439)**	(666)
Fees associated with financing activities		**(15)**	(22)
Net cash and cash equivalents transferred from/(to) restricted cash		**63**	(5)
Repayment of capital element of finance lease obligations		**(10)**	(17)
Dividends paid to non controlling interests		**(18)**	–
Purchase of non controlling interests		**(66)**	(10)
Contribution from non controlling interests		**26**	3
Net cash used in financing activities		**(814)**	(1,073)
Net increase/(decrease) in cash and cash equivalents in the year		**529**	(144)
Cash and cash equivalents at 1 April		**72**	210
Currency translation differences		**(7)**	6
Cash and cash equivalents at 31 March	21	**594**	72

Notes to the consolidated financial statements

for the year ended 31 March 2011

1 General information

Alliance Boots GmbH is a private company incorporated in Switzerland. The address of its registered office is Alliance Boots GmbH, Baarerstrasse 94, CH-6300 Zug, Switzerland. The principal activities of the Group are pharmacy-led health and beauty retailing and pharmaceutical wholesaling and distribution in many major international markets.

2 Accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below:

Basis of accounting

The consolidated financial statements have been prepared in Sterling reflecting the denomination of the currency of the most significant proportion of the trade and cash flows of Alliance Boots GmbH (the "Company") and its subsidiaries and their interests in associates and joint ventures (together referred to as "the Group") and have been rounded to the nearest £1 million. The consolidated financial statements have been prepared in accordance with the requirements of Swiss law and International Financial Reporting Standards (IFRSs), as they apply to the consolidated financial statements for the year ended 31 March 2011. Had the consolidated financial statements been prepared under IFRSs as adopted by the European Union, there would be no material changes to the information presented in these consolidated financial statements.

The consolidated financial statements have been prepared principally on the historical cost basis. Other applicable measurement bases applied in the preparation of the consolidated financial statements are identified in the accounting policies below.

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the consolidated financial statements. The areas involving a higher degree of judgement, or areas where assumptions or estimates were significant to the consolidated financial statements are disclosed in note 38.

The comparative income statement has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year.

Going concern

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future, and have therefore continued to adopt the going concern basis for preparing the consolidated financial statements.

New, amended and revised IFRSs and International Financial Reporting Interpretations Committee pronouncements ("IFRICs")

The following amendments and revisions to IFRSs were effective for the first time in the year ended 31 March 2011 and had an impact on the consolidated financial statements:

Amendments and revisions to IFRSs	
IFRS 3 & IAS 27	Business Combinations

From 1 April 2010 the Group has applied IFRS 3 Business Combinations (2008) and IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for business combinations and acquisitions of non controlling interests. The accounting policies for Consolidation and Business combinations and goodwill have been updated accordingly. The change in accounting policies has been applied prospectively and has had no material impact on profit.

The following amendments and revisions to IFRSs, IFRICs and amendments to IFRICs which were effective for the first time in the year ended 31 March 2011 did not have any material impact on the consolidated financial statements:

Amendments and revisions to IFRSs	
IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 2	Group Cash-settled Share-based Payments
IAS 12	Income Taxes
IAS 32	Classification of Rights Issues
IAS 39	Eligible Hedged Items
New IFRICs	
IFRIC 17	Distributions of Non-cash Assets to Owners
Amendments to IFRICs	
IFRIC 9	Embedded Derivatives

The following IFRSs and IFRICs, and amendments and revisions to IFRSs and IFRICs were available for early adoption, but have not yet been applied in the preparation of the consolidated financial statements:

New IFRSs		Effective for periods beginning on or after
IFRS 9	Financial Instruments	1 January 2013
Amendments and revisions to IFRSs		
IFRS 7	Financial Instruments: Disclosures	1 July 2011
IAS 12	Income Taxes	1 January 2012
IAS 24	Related Party Disclosures	1 January 2011
various	Improvements to IFRSs – minor amendments	various
New IFRICs		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Amendments to IFRICs		
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011

The Directors do not anticipate that the adoption of these new IFRSs and IFRICs, and amendments and revisions to IFRSs and IFRICs will have a material impact on the consolidated financial statements in the period of initial application with the exception of IFRS 9, where classification and measurement amendments will be required to financial assets currently classified as available-for-sale.

Consolidation

The consolidated financial statements as at and for the year ended 31 March 2011 comprise the Company and its subsidiaries and their interests in associates and joint ventures.

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the year are included in the Group income statement from and to the date that control commences or ceases, as appropriate.

Non controlling interests

Transactions with non controlling interests are treated as transactions with owners in their capacity as owners. When an equity interest is purchased from a non controlling interest, an amount proportionate to the interest purchased is transferred from equity attributable to non controlling interests to equity attributable to shareholders.

Prior to 1 April 2010, transactions with non controlling interests were treated as transactions with parties that were external to the Group, and when an equity interest was purchased from a non controlling interest, the difference between the consideration paid and the relevant share of the carrying value of the net assets acquired was recognised as goodwill and the underlying non controlling interest derecognised.

Associates and joint ventures

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but without control, or joint control, of the financial and operating policies of the entity. A joint venture is an entity over which the Group, either directly or indirectly, is in a position to jointly control the financial and operating policies of the entity. Associates and joint ventures are accounted for using the equity method. Unrealised profits and losses recognised by the Group on transactions with associates or joint ventures are eliminated to the extent of the Group's interest in the associate or joint venture concerned. Financial statements of some associates and joint ventures are prepared for different reporting years from that of the Group. Adjustments are made for the effects of transactions and events that occur between the reporting date of an associate or joint venture and the reporting date of the consolidated financial statements.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Currency

Currency transactions

Transactions denominated in currencies other than an entity's functional currency are translated into an entity's functional currency at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in currencies other than an entity's functional currency at the year end are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date of the transaction. Non-monetary items that are measured at fair value and are denominated in currencies other than an entity's functional currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains and losses are recognised in the income statement.

Non-Sterling denominated entities

The assets and liabilities of non-Sterling denominated entities, including goodwill and fair value adjustments arising on consolidation, are translated into Sterling at exchange rates ruling at the year end. The results and cash flows of non-Sterling denominated entities are translated into Sterling at the average exchange rate for the year, which approximates to the underlying actual rates.

Exchange differences arising from the translation of the results and net assets of non-Sterling denominated entities are recognised in the translation reserve.

When a non-Sterling denominated entity is sold, the related balance in the translation reserve is recognised in the income statement as part of the gain or loss on sale.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

2 Accounting policies continued

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for making resource allocation decisions in the attainment of strategic objectives and assessing the performance of the operating segments, have been identified as the executive Directors.

The Group has two reportable segments, being the Health & Beauty Division and the Pharmaceutical Wholesale Division. The main activity of the Health & Beauty Division is pharmacy-led health and beauty retailing, and the main activity of the Pharmaceutical Wholesale Division is pharmaceutical wholesaling and distribution.

Revenue

Revenue shown on the face of the income statement is the amount derived from the sale of goods and services outside of the Group in the normal course of business and is measured at the fair value of consideration received or receivable net of trade discounts, value added tax and other sales-related taxes. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Revenue from services is recognised when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

The accounting policies for the major revenue categories by operating segment are:

Health & Beauty Division

Reimbursement of dispensing revenue and revenue derived from optical services is initially estimated because the actual reimbursement is often not known until after the month of sale.

Consideration received from retail and optical sales is recorded as revenue at the point of sale less appropriate adjustments for returns.

In respect of loyalty schemes (principally the Boots Advantage Card) as points are issued to customers the retail value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue. Sales of gift vouchers are only included in revenue when vouchers are redeemed.

Pharmaceutical Wholesale Division

Wholesale revenue is recognised upon despatch of goods.

When the Group acts in the capacity of an agent, or a logistics service provider, revenue is the service fees and is recognised upon performance of the services concerned.

Other segments

Revenue is recognised upon despatch of goods.

Supplier rebates

Certain suppliers offer rebates when purchases made in a period meet or exceed a predetermined level. Rebates are only recognised when there is clear evidence of this type of binding arrangement with the supplier and the rebate receipt is both probable and can be reasonably estimated. The rebate is recognised as a reduction in the purchase price.

Exceptional items

Certain items are not regarded as forming part of the underlying trading activities of the Group and are therefore separately identified to allow users to understand the elements of and the trends in financial performance.

Finance income

Finance income comprises interest receivable on funds invested calculated using the effective interest rate method, net exchange gains relating to financing items, expected returns on defined benefit scheme assets, net fair value gains on derivative financial instruments used to hedge certain risks attributable to hedged items that are financing in nature, gains on derecognition of available-for-sale investments, fair value movements on cash flow hedge financing derivatives recycled from the cash flow hedge reserve, fair value movements on liabilities to non controlling interests, dividends received from investments and discounts on the repurchase of bank loans provided to the Group, which are accounted for as loan redemptions. Dividend income is recognised when the right to receive payment is established.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, financing fees, net exchange losses relating to financing, interest on defined benefit scheme liabilities, the interest expense component of finance lease payments, net fair value losses on derivative financial instruments used to hedge certain risks attributable to hedged items that are financing in nature, fair value movements on cash flow hedge financing derivatives recycled from the cash flow hedge reserve and fair value movements on liabilities to non controlling interests.

Current/non-current classification

Current assets include assets held primarily for trading purposes, cash and cash equivalents, restricted cash and assets expected to be realised in, or intended for sale or consumption in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 using the purchase method of accounting. The cost of acquisition is the consideration given in exchange for the identifiable net assets. This consideration includes any cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. Where a share-for-share exchange transaction is accounted for as a business combination, the cost of acquisition is the fair value of the equity transferred. Contingent consideration is recognised at fair value at the acquisition date. If contingent consideration comprises equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of contingent consideration are recognised in the income statement.

The acquired net assets are initially recognised at fair value which is deemed cost in the consolidated financial statements. Where the Group does not acquire 100% ownership of the acquired company, non controlling interests are recorded either at fair value or at their proportion of the fair value of the acquired net assets. Prior to 1 April 2010, non controlling interests were recorded at their proportion of the fair value of the acquired net assets. Any adjustment to the fair values is recognised within twelve months of the acquisition date.

For acquisitions after 1 April 2010, goodwill comprises the fair value of the consideration plus the recognised amount of any non controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less the fair value of the identifiable net assets acquired. Any difference between the carrying value and fair value of pre existing equity interest in the acquiree is recognised in the income statement. For acquisitions prior to 1 April 2010, goodwill comprises the excess of the fair value of the consideration plus directly attributable costs over the fair value of the identifiable net assets acquired. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business and are recorded in the local currency of that business. Where the fair value of the identifiable net assets exceeds the fair value of the consideration, the excess is recognised as negative goodwill and recognised in the income statement immediately.

The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement. Goodwill is carried at cost less accumulated impairment losses. No amortisation is charged.

Intangible assets

Intangible assets are stated at cost or deemed cost less any impairment and accumulated amortisation. The principal categories of intangible assets are:

Pharmacy licences

Pharmacy licences, being the exclusive right to operate as a pharmacy, are capitalised where there is an asset that can be separated from other identifiable assets that together form a pharmacy business.

Brands

Brands consist of corporate and product brands acquired as part of business combinations that meet the criteria for separate recognition. Costs in relation to internally generated brands are not capitalised.

Customer relationships

Customer relationships consist of relationships with customers established through contracts, or non-contractual customer relationships that meet the criteria for separate recognition, that have been acquired in a business combination.

Other intangible assets

Other intangible assets comprise product licences which give the right to sell certain products in specific countries and clinical data used to review therapy effectiveness which are recognised separately as intangible assets when they are acquired.

Software

Software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Certain direct and indirect development costs associated with internally developed software, including direct costs of materials and services, and payroll costs for employees devoting time to the software projects, are capitalised once the project has reached the application development stage. The costs are amortised from when the asset is ready for use. Costs incurred during the preliminary project stage, maintenance and training costs, and research and development costs are expensed as incurred.

Amortisation

Where an intangible asset is considered to have a finite life, amortisation is charged to the income statement on a straight-line basis over the useful life from the date the asset is available for use. Pharmacy licences recognised as intangible assets do not expire and therefore are considered to have an indefinite life. Certain brands have been identified as having an indefinite life, based on their life and history along with current market strength and future development plans. Those assets considered to have an indefinite life are not amortised and are tested for impairment at each year end. The useful lives for those intangible assets with a finite life are:

- Brands – 10 to 20 years;
- Customer relationships – 4 to 20 years;
- Product licences – 5 to 15 years; and
- Software – 3 to 8 years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

2 Accounting policies continued

Property, plant and equipment

All property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, in equal instalments over their expected useful economic lives which are:

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – not more than 50 years;
- Short leasehold land and buildings - remaining period of lease;
- Plant and machinery – 3 to 10 years; and
- Fixtures, fittings, tools and equipment – 3 to 20 years.

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Impairment of assets

The Group's assets are reviewed at each year end to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows referred to as cash generating units.

For goodwill and other intangible assets that have an indefinite life and assets not yet available for use, the recoverable amount is estimated annually or more frequently when there is an indication that the asset is impaired.

Assets held for sale and discontinued operations

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than through continuing use. The asset or disposal group must be available for immediate sale and the sale must be highly probable and be expected to complete within one year of the year end. Where applicable, assets and disposal groups classified as held for sale are measured at the lower of fair value less costs to sell and carrying amount.

Impairment losses on initial classification as held for sale are included in the income statement. Gains reversing previous impairment losses or losses on subsequent remeasurements are also included in the income statement.

Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities with disposal groups being separated between assets held for sale and liabilities held for sale. No amortisation or depreciation is charged on assets, including those in disposal groups, classified as held for sale.

Discontinued operations are components of the Group's business that represent separate major lines of business or geographical areas of operations. Classification as discontinued operations occurs upon the date of disposal or when operations meet the criteria for classification as held for sale, if earlier. When operations are classified as discontinued, the comparative income statement is re-presented as if the operations had been discontinued from the start of the comparative year and included in the income statement as a separate line entitled 'Profit for the year from discontinued operations'.

Available-for-sale investments

The Group classifies its listed and unlisted investments as available-for-sale financial assets and measures them at fair value. Gains and losses arising from changes in fair values and exchange translation are recognised in equity until the investment is either disposed of or derecognised. When an investment is disposed of or derecognised, the related balances in the available-for-sale reserve is recognised in the income statement as part of the gain or loss on sale.

Trade receivables and other receivables

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost, less allowances for impairment where appropriate. These are reviewed for impairment on an individual or collective basis, depending on the size of the receivable and the period for which it is overdue.

Where the contractual rights to the cash flows from receivables are transferred to another party in transactions by which substantially all the risks and rewards of ownership of the receivables are transferred, then the receivables are derecognised.

Inventories

Inventories are valued at the lower of cost and net realisable value. With the exception of retail inventory in the Health & Beauty Division, cost is determined using the first in, first out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

The cost of raw materials and packaging is their purchase price. The cost of work in progress and finished goods comprises the purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels. Retailing inventory is valued at retail prices and reduced by appropriate margins to take into account factors such as average cost, obsolescence, seasonality and damage.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short term deposits with maturities of three months or less from the date of acquisition. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Restricted cash
Restricted cash comprises cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations.

Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to currency translation and interest rate risks arising from operating, financing and investing activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value with movements taken to the income statement.

Derivative financial instruments are recognised initially at fair value, with movements on remeasurement recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedges
Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or non-financial liability.

If the hedged forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period, or periods, during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period, or periods, during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of monetary assets and liabilities
Where a derivative financial instrument is used to hedge economically the currency translation exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in non-Sterling denominated entities
On consolidation, the effective portion of the gain or loss on an instrument designated as a hedge of net investment in a non-Sterling denominated entity that is determined to be an effective hedge is recognised directly in the translation reserve. The ineffective portion is recognised immediately in the income statement.

When a non-Sterling denominated entity is sold, the cumulative currency gains or losses on the hedging instrument associated with that non-Sterling entity are removed from the translation reserve and recognised in the income statement as part of the gain or loss on sale.

Trade payables
Trade payables are initially recognised at fair value and are subsequently measured at amortised cost.

Borrowings
Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Liabilities to non controlling interests
Commitments to acquire equity stakes from non controlling interests, including put options, are recognised as financial liabilities when they are made, with a corresponding debit recognised as a special reserve within shareholders' equity. Dividend obligations to non controlling interests are recognised as financial liabilities when they are made, with a corresponding debit recognised within equity attributable to non controlling interests.

Changes to estimates of amounts payable under these commitments and obligations are recognised as exceptional items within finance income or finance costs as appropriate.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

2 Accounting policies continued

Retirement benefits

The Group operates a number of retirement benefit schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the Group's finances. Where a retirement benefits arrangement is unfunded, provision is made in the statement of financial position for the obligation.

Defined benefit schemes

A defined benefit scheme is a retirement benefit scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The Group's net obligation or asset in respect of defined benefit schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The discount rate is the yield at the year end on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in profit from operations, finance costs include interest on defined benefit scheme liabilities and the expected return on defined benefit scheme assets is included in finance income. Past service costs are recognised immediately to the extent that the benefits are already vested, otherwise they are amortised on a straight-line basis over the average period until the benefits become vested. All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of other comprehensive income.

Curtailment gains resulting from changes to the membership composition of defined benefit schemes are recognised in the income statement and as a reduction in the present value of defined benefit scheme liabilities.

Settlement gains or losses resulting from transfers of the liabilities of defined benefit schemes are recognised in the income statement and as a reduction in the present value of defined benefit scheme liabilities.

Defined contribution schemes

Obligations for contributions to defined contribution retirement benefit schemes are recognised as an expense in the income statement as they fall due.

Leases

Leases, for which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases, including outsourced assets held exclusively for the use of the Group. The cost of assets held under finance leases is included within property, plant and equipment and depreciation is provided in accordance with the policy for the class of asset concerned over the length of the lease. The corresponding obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement through finance costs to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations. Lease premiums paid in advance are treated as prepayments and are amortised over the period of the lease.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Predetermined rental increases included in the lease are recognised on a straight-line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

Lease income is recognised on a straight-line basis over the lease term.

Where leased properties become vacant, a provision is recognised and measured at the lower of the cost of terminating the lease and the expected net cash out flows of continuing with the lease.

Tax

Tax on the profit or loss for the year represents the sum of current tax and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not ever taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the year end, and any adjustments to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided in full using the statement of financial position liability method. It is the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. The following temporary differences are not provided for: those arising from the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amounts of deferred tax assets are reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from receipt of dividends from the Group's subsidiaries, associates and joint ventures are recognised at the same time as the payee recognises the liability to pay the related dividend except where the timing of the payment is not controlled by the Group, in which case a deferred tax liability is recognised in full against those distributable reserves.

Deferred tax assets and liabilities are offset in the statement of financial position when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Provisions
Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and that obligation can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects the risks specific to the liability.

Equity instruments
An equity instrument is any contract which evidences a residual interest in the net assets of an entity. A financial instrument is treated by the Group as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on unfavourable terms; and
- the instrument is either a non-derivative which contains no contractual obligation to deliver a variable number of shares, or is a derivative which will be settled only by the Group exchanging a fixed amount of cash or other financial assets, for a fixed number of its own equity instruments.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of applicable tax, from the proceeds. An incremental share issue cost is one which would not have arisen if shares had not been issued.

Use of non-GAAP measures
The Directors believe that certain non-GAAP measures provide additional useful information to assist in understanding the performance of the Group. These measures, which are used for internal performance measurement, and are not defined by IFRSs and therefore may not be directly comparable with other companies' adjusted measures. The key measures are:

EBITDA
Trading profit before underlying depreciation and amortisation.

IAS 39 timing differences
Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments.

Net borrowings
Cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees.

Net finance costs
Finance costs net of finance income.

Share of underlying post tax earnings of associates and joint ventures
Share of post tax earnings of associates and joint ventures before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Timing differences within net finance costs
IAS 39 timing differences and the unwind of the discount on obligations to non controlling interests.

Trading profit
Profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures.

Underlying depreciation and amortisation
Depreciation and amortisation adjusted to exclude amortisation of customer relationships and brands and depreciation and amortisation within exceptional items.

Underlying net finance costs
Net finance costs adjusted to exclude exceptional items and timing differences within net finance costs.

Underlying profit
Profit for the year before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Underlying tax charge
Tax adjusted to exclude tax on amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and exceptional tax.

3 Exchange rates
The principal exchange rates relative to Sterling used in the preparation of the consolidated financial statements were:

	Average		Closing rate	
	2011	2010	**At 31 March 2011**	At 31 March 2010
Euro	**1.177**	1.129	**1.135**	1.113
Turkish Lira	**2.371**	2.421	**2.494**	2.292
Swiss Franc	**1.575**	1.696	**1.473**	1.595
Norwegian Krone	**9.348**	9.641	**8.970**	8.956
Russian Rouble	**47.018**	49.016	**45.382**	44.166

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

4 Segmental information

The Group's externally reportable operating segments reflect the internal reporting structure of the Group, which is the basis on which resource allocation decisions are made by the executive Directors in the attainment of strategic objectives. Inter-segment pricing is determined on an arm's length basis.

The Group comprises the following operating segments:

Health & Beauty Division
Comprises all of the pharmacy-led health and beauty retail businesses across the Group. These businesses are located in the UK, Norway, the Republic of Ireland, The Netherlands, Thailand, Lithuania and Russia. There was also an operation in Italy, which was discontinued during the year.

Pharmaceutical Wholesale Division
Comprises all of the pharmaceutical wholesaling and distribution businesses across the Group. These businesses are located in France, the UK, Turkey, Spain, Germany, Russia, The Netherlands, Czech Republic, Norway, Egypt, Romania and Lithuania. There was also an operation in Italy, which was discontinued during the year.

All other segments comprise the activities of Contract Manufacturing and Corporate. These did not meet the quantitative thresholds for determining reportable operating segments in 2011 or 2010.

Information regarding the results from continuing operations of each reportable segment is included below. Segment performance measures are revenue and trading profit/(loss) as included in the internal management reports that are reviewed by the executive Directors. These measures are used to monitor performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Definitions of the non-GAAP profit measures set out in the tables below are provided in the accounting policies.

2011	**Health & Beauty Division £million**	**Pharmaceutical Wholesale Division £million**	**All other segments £million**	**Eliminations £million**	**Total £million**
External revenue	**7,621**	**12,478**	**119**	–	**20,218**
Intra-group revenue	**5**	**1,464**	**134**	**(1,603)**	–
Total revenue	**7,626**	**13,942**	**253**	**(1,603)**	**20,218**
EBITDA	**962**	**364**	**(26)**	–	**1,300**
Underlying depreciation and amortisation	**(195)**	**(44)**	**(10)**	–	**(249)**
Trading profit/(loss)	**767**	**320**	**(36)**	–	**1,051**
Share of underlying post tax earnings of associates and joint ventures					**74**
Underlying net finance costs					**(381)**
Underlying tax charge					**(137)**
Underlying profit					**607**

2010 Re-presented	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Eliminations £million	Total £million
External revenue	7,495	9,971	105	–	17,571
Intra-group revenue	–	1,312	147	(1,459)	–
Total revenue	7,495	11,283	252	(1,459)	17,571
EBITDA	931	276	(34)	–	1,173
Underlying depreciation and amortisation	(204)	(41)	(8)	–	(253)
Trading profit/(loss)	727	235	(42)	–	920
Share of underlying post tax earnings of associates and joint ventures					100
Underlying net finance costs					(425)
Underlying tax charge					(2)
Underlying profit					593

The reconciliation of trading profit to profit before tax is set out below:

	2011 £million	2010 Re-presented £million
Trading profit	**1,051**	920
Amortisation of customer relationships and brands	**(114)**	(93)
Exceptional items	**7**	(160)
Profit from operations before associates and joint ventures	**944**	667
Share of post tax earnings of associates and joint ventures	**73**	98
Impairment of investments in associates	**(4)**	–
Net gain on acquisitions of controlling interests in associates	**19**	–
Profit from operations	**1,032**	765
Net finance costs	**(395)**	(305)
Profit before tax	**637**	460

The share of post tax earnings of associates and joint ventures of £73 million (2010: £98 million) is stated after the Group's share of exceptional items of associates and joint ventures of £1 million (2010: £2 million).

The reconciliation of underlying profit to statutory profit for the year is set out below:

	2011 £million	2010 Re-presented £million
Underlying profit	**607**	593
Amortisation of customer relationships and brands	**(114)**	(93)
Net exceptional items before tax	**36**	(34)
Timing differences within net finance costs	**(29)**	(8)
Tax credit on items not in underlying profit	**40**	49
Exceptional tax credit	**72**	89
Profit for the year from continuing operations	**612**	596
Profit for the year from discontinued operations	**3**	8
Profit for the year	**615**	604

The Group's reportable segment assets and liabilities at the year end were:

			2011			2010
	Assets £million	**Liabilities £million**	**Net £million**	Assets £million	Liabilities £million	Net £million
Health & Beauty Division	**10,864**	**(1,374)**	**9,490**	10,828	(1,240)	9,588
Pharmaceutical Wholesale Division	**7,506**	**(3,794)**	**3,712**	5,862	(2,512)	3,350
All other segments	**290**	**(108)**	**182**	169	(75)	94
Eliminations	**(281)**	**281**	**–**	(277)	277	–
Allocated segment assets/(liabilities)	**18,379**	**(4,995)**	**13,384**	16,582	(3,550)	13,032
Unallocated:						
Investments in associates and joint ventures	**838**	**–**	**838**	1,143	–	1,143
Available-for-sale investments	**67**	**–**	**67**	80	–	80
Retirement benefit obligations	**–**	**(223)**	**(223)**	–	(462)	(462)
Assets classified as held for sale	**3**	**–**	**3**	9	–	9
Net current and deferred tax	**17**	**(1,119)**	**(1,102)**	227	(1,300)	(1,073)
Net cash/(borrowings)	**950**	**(8,793)**	**(7,843)**	703	(9,092)	(8,389)
	20,254	**(15,130)**	**5,124**	18,744	(14,404)	4,340

Allocated segment assets at the year end comprised goodwill of £4,815 million (2010: £4,649 million), other intangible assets of £5,630 million (2010: £5,456 million), property, plant and equipment of £2,069 million (2010: £2,091 million), non-current other receivables of £266 million (2010: £153 million), inventories of £2,069 million (2010: £1,623 million), and trade and other receivables of £3,530 million (2010: £2,610 million).

Allocated segment liabilities at the year end comprised trade and other payables of £4,603 million (2010: £3,377 million), current provisions of £59 million (2010: £37 million), non-current other payables of £275 million (2010: £92 million) and non-current provisions of £58 million (2010: £44 million).

Eliminations included inter-segmental trading accounts between subsidiary undertakings.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

4 Segmental information continued

Other information in respect of the Group's segments (including discontinued operations) was:

2011	**Health & Beauty Division £million**	**Pharmaceutical Wholesale Division £million**	**All other segments £million**	**Total £million**
Amortisation of other intangible assets	**75**	**85**	**–**	**160**
Depreciation of property, plant and equipment	**160**	**34**	**10**	**204**
Additions to non-current assets:				
– goodwill	**–**	**217**	**–**	**217**
– other intangible assets	**72**	**13**	**–**	**85**
– property, plant and equipment	**138**	**33**	**2**	**173**

2010	Health & Beauty Division £million	Pharmaceutical Wholesale Division £million	All other segments £million	Total £million
Amortisation of other intangible assets	76	63	–	139
Depreciation of property, plant and equipment	176	36	8	220
Additions to non-current assets:				
– goodwill	18	–	–	18
– other intangible assets	40	16	1	57
– property, plant and equipment	158	26	4	188

Segmental revenue based on the geographical location of customers was:

	2011 £million	2010 Re-presented £million
UK	**8,202**	8,370
France	**4,550**	4,780
Other	**7,532**	4,495
Intra-group	**(66)**	(74)
	20,218	17,571

No revenues arose in Switzerland, the Company's country of domicile.

Segmental non-current, non-financial assets, excluding deferred tax assets, based on the geographical location of the assets were:

	2011 £million	2010 £million
UK	**10,043**	10,119
France	**635**	661
Switzerland	**585**	509
Other	**2,089**	2,050
	13,352	13,339

Segment non-current, non-financial assets at the year end comprised goodwill of £4,815 million (2010: £4,649 million), other intangible assets of £5,630 million (2010: £5,456 million), property, plant and equipment of £2,069 million (2010: £2,091 million) and investments in associates and joint ventures of £838 million (2010: £1,143 million).

The Group's external revenues for groups of similar products and services were:

	2011 £million	2010 Re-presented £million
Health & Beauty Division		
Dispensing and Related Income	**2,829**	2,763
Retail	**4,420**	4,412
Optical	**329**	320
Other	**48**	–
	7,626	7,495
Pharmaceutical Wholesale Division		
Wholesale and Related Services	**13,942**	11,283
	13,942	11,283
All other segments and eliminations	**(1,350)**	(1,207)
	20,218	17,571

5 Profit from operations before associates and joint ventures

2011	**Before amortisation of customer relationships and brands, and exceptional items £million**	**Amortisation of customer relationships and brands £million**	**Exceptional items £million**	**Total £million**
Revenue	**20,218**	–	–	**20,218**
Cost of sales	**(15,651)**	–	–	**(15,651)**
Gross profit	**4,567**	–	–	**4,567**
Selling, distribution and store costs	**(3,015)**	**(114)**	**(22)**	**(3,151)**
Administrative costs	**(501)**	–	**(11)**	**(512)**
Negative goodwill	–	–	**16**	**16**
Net gain on disposal of non-current assets	–	–	**24**	**24**
Profit from operations before associates and joint ventures	**1,051**	**(114)**	**7**	**944**

2010 Re-presented	Before amortisation of customer relationships and brands, and exceptional items £million	Amortisation of customer relationships and brands £million	Exceptional items £million	Total £million
Revenue	17,571	–	–	17,571
Cost of sales	(13,316)	–	–	(13,316)
Gross profit	4,255	–	–	4,255
Selling, distribution and store costs	(2,869)	(93)	(39)	(3,001)
Administrative costs	(466)	–	(2)	(468)
Goodwill impairment	–	–	(121)	(121)
Net gain on disposal of non-current assets	–	–	2	2
Profit from operations before associates and joint ventures	920	(93)	(160)	667

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

6 Exceptional items

	2011 £million	2010 £million
Within profit from operations		
Pharmaceutical Wholesale Division restructuring programme[1]	**(48)**	–
UK Health & Beauty restructuring programme[2]	**(37)**	–
Costs in relation to merger synergies and second phase of integration projects	**–**	(41)
Impairment of goodwill[3]	**–**	(121)
Net gain in relation to defined benefit pension schemes[4]	**60**	–
Negative goodwill[5]	**16**	–
Net gain on disposal of non-current assets[6]	**24**	2
Acquisition related costs[7]	**(8)**	–
Within profit from operations before associates and joint ventures	**7**	(160)
Within share of post tax earnings of associates and joint ventures	**(1)**	(2)
Impairment of investments in associates[8]	**(4)**	–
Net gain on acquisitions of controlling interests in associates[9]	**19**	–
	21	(162)
Within finance income		
Discounts on repurchase of acquisition borrowings[10]	**4**	128
Gains on change of status from available-for-sale investments to subsidiary	**2**	–
	6	128
Within finance costs		
Reassessment of obligations to non controlling interests	**9**	–
	9	–
Within tax		
Tax credit on exceptional items	**3**	10
Exceptional tax credit[11]	**72**	89
	75	99
	111	65

1 During the year, the Group commenced a second phase of the restructuring programme in its Pharmaceutical Wholesale Division, aiming to further adapt its pharmaceutical wholesale businesses to better fulfil the expectations of customers and payors, as well as securing new opportunities in the marketplace. The programme is targeted to reduce operating costs by around £24 million per annum by 2013/14 and the resulting exceptional charge is higher than originally announced due to additional asset write offs.

2 During the year, the Group commenced a programme within the UK part of its Health & Beauty Division and related contract manufacturing activities to provide best in class support for stores and drive future growth. The programme, which focuses on optimising end-to-end business processes, includes moving to a leaner central support organisation, supported by new systems, a streamlining of manufacturing operations and optimisation of supply chain activities.

3 In the prior year, the Group recorded an impairment on part of the goodwill allocated to its Pharmaceutical Wholesale business in France.

4 During the year, the Group undertook a number of projects designed to ensure the long term security of accrued benefits for its defined benefit pension schemes. In the UK, the Group closed all its defined benefit pension schemes to future accrual, which gave rise to £153 million of curtailment gains and negative past service costs, net of associated costs. The obligations of the Alliance UniChem UK Group Pension Scheme were subsequently transferred to an insurer which gave rise to a settlement loss, including associated costs, of £96 million, prior to the scheme being fully bought out. The Group also closed its defined benefit pension schemes to future accrual in the Republic of Ireland and Norway, and subsequently transferred the obligations of the Norwegian schemes to a third party.

5 Negative goodwill arose on the acquisition of a controlling interest in Andreae-Noris Zahn AG.

6 Net gain on disposal of non-current assets mainly related to properties sold to the insurer of the Alliance UniChem UK Group Pension Scheme.

7 Acquisition related costs comprise one off costs relating to actual and potential acquisitions.

8 The Group recorded impairments on certain of its associate investments in The Netherlands based on a comparison of carrying values and estimated recoverable amount.

9 During the year, the Group acquired controlling interests in two associates, Hedef Alliance Holding A.S. and Andreae-Noris Zahn AG. On the respective acquisitions, the carrying value of pre-existing interests were remeasured to fair value giving rise to an overall net gain.

10 During the year, the Group repurchased acquisition borrowings from holders in the secondary market, which included a related party. The nominal value of borrowings repurchased was £83 million and the total discount, net of related prepaid financing fees, was accounted for as a redemption of bank loans, reducing the Group's net borrowings.

11 The exceptional credit in the year related to the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2011. The prior year credit related to the release of deferred tax assets and liabilities in respect of remittable earnings from associates and joint ventures following a change in UK tax rules which exempted dividends from substantial shareholdings.

7 Profit from operations

The following items have been deducted in arriving at profit from operations:

	2011 £million	2010 Re-presented £million
Amortisation of other intangible assets	**160**	138
Depreciation of property, plant and equipment	**203**	215
Operating lease rentals	**382**	351
Employee costs	**1,885**	1,822

An analysis of the total remuneration paid to the Group's principal auditor in respect of continuing operations is provided below:

	2011 £million	2010 Re-presented £million
Audit:		
– consolidated financial statements	**0.1**	0.3
– subsidiary financial statements	**1.3**	1.8
	1.4	2.1
Other services:		
– corporate finance transactions	**0.5**	–
– taxation	**0.2**	0.3
– other	**0.3**	0.3
	1.0	0.6
	2.4	2.7

Total remuneration paid to the Group's principal auditor in respect of discontinued operations was £29,000 (2010: £68,000).

8 Employee costs

The average monthly number of persons employed by the Group in continuing operations over the year, including Directors and part-time employees, was:

	2011		2010 Re-presented	
	Number of heads	Full-time equivalents	Number of heads	Full-time equivalents
Health & Beauty Division	**76,746**	**49,739**	77,214	49,304
Pharmaceutical Wholesale Division	**20,943**	**19,111**	14,383	12,582
Contract Manufacturing & Corporate	**1,948**	**1,904**	2,070	1,949
	99,637	**70,754**	93,667	63,835

Costs incurred in respect of these employees were:

	2011 £million	2010 Re-presented £million
Wages and salaries	**1,588**	1,566
Social security costs	**209**	191
Retirement benefit costs:		
– defined benefit schemes (current service costs)	**23**	47
– defined contribution schemes	**65**	18
	1,885	1,822

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

9 Finance income

	2011 £million	2010 Re-presented £million
Bank deposit and other interest income	**61**	42
Net fair value movements on non-designated derivative financial instruments	**–**	10
Expected return on defined benefit scheme assets	**206**	207
Other finance income	**39**	6
	306	265
Exceptional items:		
– discounts on repurchase of acquisition borrowings	**4**	128
– gains on derecognition of available-for-sale investments	**2**	–
	6	128
	312	393

10 Finance costs

	2011 £million	2010 Re-presented £million
Interest on bank loans and overdrafts	**391**	383
Interest on defined benefit scheme liabilities	**235**	225
Financing fees	**52**	41
Net fair value movements on non-designated derivative financial instruments	**–**	12
Unwind of the discount on obligations to non controlling interests	**32**	6
Other finance costs	**6**	31
	716	698
Exceptional items:		
– reassessment of obligations to non controlling interests	**(9)**	–
	707	698

Interest on bank loans and overdrafts includes £21 million (2010: £19 million) of rolled up interest on mezzanine debt which is payable when the debt itself is settled. The total interest expense for financial liabilities not at fair value through profit and loss was £423 million (2010: £444 million). Financing fees include £26 million (2010: £30 million) of amortised fees which are being expensed over the term of the financing being provided.

11 Tax

An analysis of the tax (charge)/credit in the year was:

	2011 £million	2010 Re-presented £million
Current tax		
Current tax charge for the year	**(60)**	(53)
Adjustments in respect of prior years	**27**	(1)
	(33)	(54)
Deferred tax		
Impact of change in UK tax rate	**72**	–
Deferred tax credit relating to the origination and reversal of temporary differences	**(65)**	183
	7	183
	(26)	129
Arising from:		
– continuing operations	**(25)**	136
– discontinued operations	**(1)**	(7)
	(26)	129

The Group's principal operations are geographically dispersed and therefore the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit before tax. The reconciliation of the expected total tax charge was based on this weighted average standard tax rate of 28.5% (2010: 24.7%).

The effective average tax rate, which is defined as the tax (charge)/credit expressed as a percentage of profit from operations (continuing and discontinued) excluding share of post tax earnings of associates and joint ventures, net of finance income and finance costs, before exceptional tax credits was 17.3% (2010: (10.6)%), and after exceptional tax credits was 4.6% (2010: (34.3)%).

The reconciliation of the expected total tax charge to the reported tax (charge)/credit in the year was:

	2011 % tax rate	2011 £million	2010 % tax rate	2010 Re-presented £million
Profit before tax				
Continuing operations		**637**		460
Discontinued operations		**4**		15
		641		475
Less: share of post tax earnings of associates and joint ventures		**(73)**		(99)
		568		376
Expected tax charge at weighted average standard tax rate	**28.5%**	**(162)**	24.7%	(93)
Factors affecting (charge)/credit for the year:				
– non-taxable items and tax credits[1]		**39**		17
– write down of brought forward deferred tax asset on unrelieved tax losses		**–**		10
– unrelieved tax losses arising in the year		**(7)**		(2)
– deferred tax on remittable earnings of associates and joint ventures		**–**		40
– current tax adjustments in respect of prior years		**27**		(1)
– deferred tax adjustments in respect of prior years		**(7)**		75
– other differences		**12**		(6)
Before exceptional tax credits	**17.3%**	**(98)**	(10.6)%	40
– exceptional tax[2]		**72**		89
	4.6%	**(26)**	(34.3)%	129

1 Non-taxable items include negative goodwill, the net gain on acquisitions of controlling interests in associates, tax credits arising from updates to tax base costs of the Group's property and intangible assets, and other non-taxable income.

2 During the year exceptional tax credits arose as a result of the net reduction in deferred tax assets and liabilities resulting from the two percentage point reduction in the rate of UK corporation tax applicable from April 2011. During the year the UK Government announced that the rate of UK corporation tax would reduce by 1% over each of the next three years to 23%. When each of these rate changes are substantively enacted it is estimated that this will result in an additional exceptional deferred tax credit of approximately £35 million per year.

The underlying tax (charge), calculated before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and other exceptional tax, reconciled to the tax (charge)/credit in the year was:

	2011 £million	2010 Re-presented £million
Underlying tax charge	**(137)**	(2)
Tax on:		
– amortisation of customer relationships and brands	**45**	36
– exceptional items	**3**	10
– timing differences on net finance costs	**(8)**	3
Other exceptional tax	**72**	89
	(25)	136

Tax (charge)/credit on items taken directly to other comprehensive income comprised:

	2011			2010		
	Before tax £million	**Tax £million**	**After tax £million**	Before tax £million	Tax £million	After tax £million
Other comprehensive income						
Net exchange differences on translation of non-Sterling denominated operations	**(27)**	**25**	**(2)**	35	–	35
Defined benefit schemes – net actuarial gains/(losses) net of surplus restriction	**145**	**(40)**	**105**	(694)	194	(500)
Fair value losses on cash flow hedging instruments net of amounts recycled	**–**	**–**	**–**	(1)	–	(1)
Movements on available-for-sale reserve including amounts recycled	**(9)**	**–**	**(9)**	30	–	30
Share of post tax other comprehensive income of associates and joint ventures	**6**	**–**	**6**	(10)	–	(10)
	115	**(15)**	**100**	(640)	194	(446)

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

12 Discontinued operations

On 31 July 2010 the Group sold 51% of its interest in its Italian subsidiary Alliance Healthcare Italia S.p.a. to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity. From that date the Group no longer had the ability to control the businesses operated and owned by Alliance Healthcare Italia S.p.a., and since Italy was considered to be a significant separate geography, the results from Italy are shown separately as discontinued operations. The comparative income statement of the Group has been re-presented to show these discontinued operations separately from continuing operations.

From the date of disposal, the Group's remaining 49% interest in Alliance Healthcare Italia S.p.a. has been accounted for as an associate.

The cash flow for the year from discontinued operations was as follows:

	2011 £million	2010 £million
Net cash (outflow)/inflow from operating activities	(31)	38
Net cash generated from investing activities	1	4
Net cash (used in)/generated from financing activities	(5)	22
Net (decrease)/increase in cash and cash equivalents	(35)	64

The consideration received on the sale of the Group's 51% interest was £62 million, and net borrowings at disposal were £214 million, which included £120 million of bank overdrafts and £6 million of cash and cash equivalents.

The effect of disposal on the financial position of the Group was:

	2011 £million
Intangible assets	34
Property, plant and equipment	75
Investments in associates and joint ventures	22
Non-current receivables	43
Inventories	156
Trade and other receivables	240
Cash and cash equivalents	6
Assets classified as held for sale	1
Borrowings	(220)
Trade and other payables, and provisions	(229)
Net deferred tax liabilities	(3)
Net assets	**125**

Up to the date of disposal, the average number of employees was 1,056 (2010 full year: 1,059).

The profit for the year from discontinued operations was:

	2011 £million	2010 £million
Revenue	361	1,152
Cost of sales	(324)	(1,040)
Gross profit	37	112
Selling, distribution and store costs	(22)	(73)
Administrative costs	(8)	(20)
Profit from operations before associates and joint ventures	7	19
Share of post tax earnings of associates and joint ventures	–	1
Profit from operations	7	20
Finance income	–	5
Finance costs	(3)	(10)
Profit before tax	4	15
Tax	(1)	(7)
Profit for the year	**3**	**8**

There was no gain/loss on sale of the discontinued operations.

13 Goodwill

	2011 £million	2010 £million
Net book value		
At 1 April	**4,649**	4,771
Acquisitions of businesses	**217**	18
Disposal of businesses	**(20)**	–
Impairment	–	(121)
Fair value adjustments relating to prior year transactions	–	(5)
Currency translation differences	**(31)**	(14)
At 31 March	**4,815**	4,649

The cumulative impairment of goodwill was £146 million (2010: £146 million).

14 Other intangible assets

2011	**Pharmacy licences £million**	**Brands £million**	**Customer relationships £million**	**Software £million**	**Other intangible assets £million**	**Total £million**
Cost						
At 1 April 2010	**1,283**	**2,990**	**1,267**	**268**	**8**	**5,816**
Acquisitions of businesses	**10**	–	**271**	**3**	–	**284**
Additions	–	–	–	**82**	**3**	**85**
Disposals of businesses	**(9)**	–	–	**(3)**	**(4)**	**(16)**
Disposals	–	–	–	**(8)**	–	**(8)**
Currency translation differences	–	–	**(19)**	–	–	**(19)**
At 31 March 2011	**1,284**	**2,990**	**1,519**	**342**	**7**	**6,142**
Amortisation						
At 1 April 2010	–	**13**	**225**	**121**	**1**	**360**
Charge	–	**10**	**104**	**45**	**1**	**160**
Disposals of businesses	–	–	–	**(1)**	**(1)**	**(2)**
Disposals	–	–	–	**(8)**	–	**(8)**
Currency translation differences	–	–	**2**	–	–	**2**
At 31 March 2011	–	**23**	**331**	**157**	**1**	**512**
Net book value	**1,284**	**2,967**	**1,188**	**185**	**6**	**5,630**

2010	Pharmacy licences £million	Brands £million	Customer relationships £million	Software £million	Other intangible assets £million	Total £million
Cost						
At 1 April 2009	1,285	2,986	1,263	221	4	5,759
Acquisitions of businesses	1	4	18	–	–	23
Additions	1	–	–	52	4	57
Disposals	–	–	–	(4)	–	(4)
Reclassified to assets held for sale	(4)	–	–	–	–	(4)
Currency translation differences	–	–	(14)	(1)	–	(15)
At 31 March 2010	1,283	2,990	1,267	268	8	5,816
Amortisation						
At 1 April 2009	–	6	139	81	–	226
Charge	–	7	87	44	1	139
Disposals	–	–	–	(3)	–	(3)
Currency translation differences	–	–	(1)	(1)	–	(2)
At 31 March 2010	–	13	225	121	1	360
Net book value	1,283	2,977	1,042	147	7	5,456

Amortisation charges in the tables above include continuing and discontinued operations.

Amortisation charges in respect of continuing operations were £160 million (2010: £138 million), of which £126 million (2010: £106 million) was recognised in selling, distribution and store costs, and £34 million (2010: £32 million) was recognised in administrative costs.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

15 Impairment testing of goodwill and other intangible fixed assets

Goodwill, pharmacy licences and brands which have an indefinite useful life are subject to annual impairment testing, or are assessed more frequently if there are indications of impairment.

Goodwill, pharmacy licences, brands and customer relationships have been allocated to the appropriate cash generating units ("CGUs") identified according to the country of operation and business. Those with significant amounts allocated at the year end are shown in the table below:

	2011				2010			
	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million	Goodwill £million	Pharmacy licences £million	Brands £million	Customer relationships £million
Health & Beauty Division – Boots UK	**2,491**	**1,284**	**2,915**	**508**	2,491	1,275	2,922	539
Pharmaceutical Wholesale – UK	**1,044**	–	–	**112**	1,044	–	–	125
Other	**1,280**	–	**52**	**568**	1,114	8	55	378
	4,815	**1,284**	**2,967**	**1,188**	4,649	1,283	2,977	1,042

Other comprises individually non-significant CGUs in comparison with the Group's total carrying amount of goodwill and other intangible assets.

The recoverable amounts of the CGUs are determined from value-in-use calculations which use discounted pre tax cash flows for a period of five years taken from approved budgets and three year forecasts, and extrapolated cash flows for the periods beyond these using estimated long term growth rates. The key assumptions are:

- **Long term average growth rates** are used to extrapolate cash flows. These are determined with reference to both internal approved budgets and forecasts and available external long term growth data for both the country and sector of each CGU.
- **Discount rates** are calculated separately for each CGU and reflect the individual nature and specific risks relating to the market in which it operates.
- **Gross margins** are based on past performance and management's expectations of market development. No improvements to margins beyond periods covered by approved budgets and forecasts have been assumed.

The CGUs with significant amounts of intangible assets are Boots UK and the Pharmaceutical Wholesale business in the UK. For these UK CGUs, the pre tax discount rate used in the impairment tests was 13.0% (2010: 13.5%), and the long term growth rates were 2.1% and 3.6% respectively (2010: 3.4% and 4.2% respectively). For other CGUs pre tax discount rates used ranged from 12.5% to 15.0% (2010: 12.5% to 15.5%), and the long term growth rates used ranged from 1.1% to 10.9% (2010: 1.2% to 6.5%).

In the prior year, the Group determined that part of the goodwill allocated to the Pharmaceutical Wholesale business in France was impaired by £121 million. The pre tax discount rate and long term growth rate applied in the supporting value-in-use calculation were 15% and 2.7% respectively.

16 Property, plant and equipment

2011	**Land and buildings £million**	**Plant and machinery £million**	**Fixtures, fittings, tools and equipment £million**	**Total £million**
Cost				
At 1 April 2010	**1,153**	**180**	**1,326**	**2,659**
Acquisitions of businesses	**130**	**1**	**30**	**161**
Additions	**29**	**13**	**131**	**173**
Disposals of businesses	**(61)**	–	**(34)**	**(95)**
Disposals	**(61)**	**(5)**	**(29)**	**(95)**
Reclassified to assets held for sale	**(4)**	–	–	**(4)**
Currency translation differences	**(11)**	**(1)**	**(9)**	**(21)**
At 31 March 2011	**1,175**	**188**	**1,415**	**2,778**
Depreciation				
At 1 April 2010	**44**	**55**	**469**	**568**
Charge	**15**	**17**	**172**	**204**
Disposals of businesses	**(5)**	–	**(15)**	**(20)**
Disposals	**(3)**	**(3)**	**(27)**	**(33)**
Reclassified to assets held for sale	**(1)**	–	–	**(1)**
Currency translation differences	**(2)**	**(1)**	**(6)**	**(9)**
At 31 March 2011	**48**	**68**	**593**	**709**
Net book value	**1,127**	**120**	**822**	**2,069**

2010	Land and buildings £million	Plant and machinery £million	Fixtures, fittings, tools and equipment £million	Total £million
Cost				
At 1 April 2009	1,192	158	1,173	2,523
Acquisitions of businesses	–	–	18	18
Additions	29	23	136	188
Disposals	(12)	(3)	(22)	(37)
Reclassified to assets held for sale	(15)	–	–	(15)
Transfers from assets under course of construction	(30)	5	25	–
Currency translation differences	(11)	(3)	(4)	(18)
At 31 March 2010	1,153	180	1,326	2,659
Depreciation				
At 1 April 2009	33	43	300	376
Charge	14	17	189	220
Disposals	(1)	(3)	(16)	(20)
Currency translation differences	(2)	(2)	(4)	(8)
At 31 March 2010	44	55	469	568
Net book value	1,109	125	857	2,091

Depreciation charges in the tables above include continuing and discontinued operations.

Depreciation charges in respect of continuing operations were £203 million (2010: £215 million), of which £6 million (2010: £6 million) was recognised in cost of sales, £166 million (2010: £176 million) was recognised in selling, distribution and store costs, and £31 million (2010: £33 million) was recognised in administrative costs.

Included within the net book values were amounts in respect of assets held under finance leases of £4 million (2010: £20 million) in land and buildings, £9 million (2010: £8 million) in plant and machinery and £6 million (2010: £15 million) in fixtures, fittings, tools and equipment. Property, plant and equipment with a carrying amount of £28 million (2010: £nil) have been pledged as security for certain of the Group's borrowing facilities.

Property, plant and equipment included assets in the course of construction of £41 million (2010: £20 million).

17 Investments in associates and joint ventures

	2011 £million	2010 £million
At 1 April	**1,143**	1,079
Acquisitions of businesses	**83**	–
Net gain on acquisitions of controlling interests in associates	**19**	–
Derecognised on acquisitions of controlling interests in associates	**(471)**	–
Disposals of businesses	**(22)**	–
Share of post tax earnings	**73**	99
Share of other comprehensive income	**6**	(10)
Dividends	**(17)**	(39)
Impairment	**(4)**	–
Reclassified to assets held for sale	–	(2)
Currency translation differences	**28**	16
At 31 March	**838**	1,143

The acquisitions of businesses during the year mainly relates to Alliance Healthcare Italia S.p.a., where the Group disposed of 51% of its interest in this formerly wholly owned subsidiary to a fellow wholly owned subsidiary of the Group's parent and ultimate controlling entity (note 12). From this date the Group no longer had the ability to control Alliance Healthcare Italia S.p.a., and the remaining interest is accounted for as an associate. The disposals of businesses relate to the associate interests Alliance Healthcare Italia S.p.a. itself had at the date the Group made its 51% disposal.

The amounts derecognised on acquisitions of controlling interests in associates during the year related to Hedef Alliance A.S. and Andreae-Noris Zahn AG, both of which became subsidiaries during the year as a result of the acquisition of controlling interests (note 33). The associate interests of these companies at the date of acquisition of the respective controlling interests, is included within acquisitions of businesses.

Included within the total carrying value of investments in associates and joint ventures was £585 million (2010: £581 million) in respect of listed companies. The market value of listed companies, based on closing share prices at 31 March 2011, was £637 million (2010: £509 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

17 Investments in associates and joint ventures continued

Details of the Group's principal associates and joint ventures are provided in note 37. The aggregate assets and liabilities reported by associates and joint ventures at 31 March 2011 were:

	2011 £million	2010 £million
Total assets	3,895	5,115
Total liabilities	(2,877)	(3,645)
Net assets	1,018	1,470
Group's share	348	580

The Group's share of contingent liabilities of associates and joint ventures was £39 million (2010: £40 million).

The aggregate revenues reported by associates and joint ventures for the year ended 31 March 2011 were:

	2011 £million	2010 Re-presented £million
Total revenue	8,631	9,494
Group's share	3,126	3,593

The aggregate post tax earnings reported by associates and joint ventures for the year ended 31 March 2011 were:

	2011 £million	2010 Re-presented £million
Total post tax earnings	229	267
Group's share	73	98

18 Available-for-sale investments

	2011 £million	2010 £million
At 1 April	80	39
Additions	1	12
Disposals	–	(2)
Movements in fair value	(7)	30
Reclassified	(6)	–
Currency translation differences	(1)	1
At 31 March	67	80

The reclassification related to investments in consortia pharmacy businesses which are now treated as subsidiaries since control has been established. Pharmacy licences totalling £5 million were recognised within other intangible assets on reclassification.

Available-for-sale investments comprised:

	2011 £million	2010 £million
Listed securities – equity	52	62
Listed securities – non-equity (pledged as collateral for an unfunded defined benefit pension scheme)	15	14
Unlisted securities – equity	–	4
	67	80

19 Inventories

	2011 £million	2010 £million
Raw materials	25	23
Work in progress	7	8
Finished goods	2,037	1,592
	2,069	1,623

Included in the aggregate carrying value presented above was £123 million (2010: £50 million) of inventories held at net realisable value.

The net reversal in the year of write-downs that were previously recognised as a reduction in the carrying value of inventories to net realisable value was £8 million (2010: £5 million). The cost of inventories expensed in both years presented was not materially different to the cost of sales recorded (note 5).

Inventories with a carrying amount of £90 million (2010: £63 million) have been pledged as security for certain of the Group's borrowing facilities.

20 Trade and other receivables

	2011 £million	2010 £million
Non-current		
Loans to customers and extended terms	**17**	23
Short leasehold premiums	**30**	31
Profit participating notes	**163**	37
Loan assets	**43**	2
Other receivables	**13**	60
	266	153
Current		
Trade receivables	**3,125**	2,291
Provision for impairment of trade receivables	**(33)**	(47)
	3,092	2,244
Loans to customers and extended terms	**52**	66
Prepayments and accrued income	**187**	155
Loan assets	**8**	–
Other receivables	**191**	145
	3,530	2,610

Loans to customers and extended terms included receivables of £63 million (2010: £84 million) where contractual terms have been renegotiated to extend the credit period offered.

Where trade receivables are estimated to be less than their carrying values, provisions have been made to write these down to their estimated recoverable amounts. The aggregate carrying value of trade receivables which were either partially or fully impaired was £263 million (2010: £189 million) and the associated aggregate impairment was £33 million (2010: £47 million). Trade receivables with a carrying value of £41 million (2010: £nil) have been pledged as security for certain of the Group's borrowing facilities.

Included within the aggregate unimpaired trade receivables were £151 million (2010: £133 million) which were past due. These balances have been assessed for recoverability and the Group believes that their credit quality remains intact. An ageing analysis of these unimpaired past due trade receivables was:

	Less than 1 month past due £million	1-2 months past due £million	2-3 months past due £million	More than 3 months past due £million	Total past due £million
Carrying value at 31 March 2011	**96**	**30**	**12**	**13**	**151**
Carrying value at 31 March 2010	75	28	11	19	133

The movement in the provision for impairment of trade receivables was:

	2011 £million	2010 £million
At 1 April	**(47)**	(39)
Disposals of businesses	**9**	–
Provision for impairment	**(12)**	(17)
Amounts written off	**8**	8
Reversal of provision for impairment	**7**	2
Currency translation differences	**2**	(1)
At 31 March	**(33)**	(47)

21 Cash and cash equivalents

	2011 £million	2010 £million
Bank balances	**293**	194
Short term deposits	**336**	149
Cash and cash equivalents	**629**	343
Bank overdrafts	**(35)**	(271)
Cash and cash equivalents in the statement of cash flows	**594**	72

22 Restricted cash

Restricted cash at 31 March 2011 of £285 million (2010: £349 million) consisted of loan notes pledged as collateral of £105 million (2010: £165 million), cash pledged as collateral on financial instruments and other obligations of £90 million (2010: £91 million), deposits restricted under contractual agency agreements of £87 million (2010: £91 million) and cash restricted by law of £3 million (2010: £2 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

23 Assets classified as held for sale

The carrying amounts of assets classified as held for sale were:

	2011 £million	2010 £million
Property, plant and equipment	**3**	9
	3	9

During the year, the Group disposed of property, plant and equipment, which had previously been reclassified as assets held for sale. The proceeds and gain on disposal of these assets was £7 million and £nil respectively. In the prior year a gain on disposal of assets held for sale of £2 million was recognised and presented as an exceptional item.

24 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following after offset:

	2011 Net £million	2010 Net £million
Unrelieved tax losses	**90**	97
Accelerated capital allowances	**(105)**	(120)
Retirement benefit obligations	**9**	130
Fair value items related to business combinations	**(850)**	(893)
Rolled over gains	**(29)**	(30)
Other temporary differences	**(207)**	(208)
Net deferred tax liabilities	**(1,092)**	(1,024)

The movement in the net deferred tax liability balance was:

	2011 £million	2010 £million
At 1 April	**(1,024)**	(1,396)
Acquisitions of businesses	**(68)**	(11)
Disposals of businesses	**3**	183
Income statement credit	**7**	–
(Charged)/credited to equity	**(15)**	194
Currency translation differences	**5**	6
At 31 March	**(1,092)**	(1,024)

The movement in deferred tax assets and liabilities during the year was:

2011	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit obligations £million	Fair value items related to business combinations £million	Rolled over gains £million	Other temporary differences £million	Total £million
Deferred tax assets							
At 1 April 2010	97	–	130	–	–	–	227
Acquisitions of businesses	–	–	1	–	–	–	1
Income statement charge	(8)	–	(83)	–	–	–	(91)
Charged to equity	–	–	(40)	–	–	–	(40)
Reclassified from liabilities	(74)	–	(4)	–	–	–	(78)
Currency translation differences	(1)	–	(1)	–	–	–	(2)
At 31 March 2011	14	–	3	–	–	–	17
Deferred tax liabilities							
At 1 April 2010	–	(120)	-	(893)	(30)	(208)	(1,251)
Acquisitions of businesses	2	(7)	2	(62)	–	(4)	(69)
Disposals of businesses	–	–	–	(1)	–	4	3
Income statement credit/(charge)	–	21	–	100	1	(24)	98
Credited to equity	–	–	–	–	–	25	25
Reclassified to assets	74	–	4	–	–	–	78
Currency translation differences	–	1	–	6	–	–	7
At 31 March 2011	76	(105)	6	(850)	(29)	(207)	(1,109)
Net deferred tax assets/(liabilities)	90	(105)	9	(850)	(29)	(207)	(1,092)

2010	Unrelieved tax losses £million	Accelerated capital allowances £million	Retirement benefit assets/ obligations £million	Fair value items related to business combinations £million	Rolled over gains £million	Remittable earnings of associates and joint ventures £million	Other temporary differences £million	Total £million
Deferred tax assets								
At 1 April 2009	102	–	–	–	–	–	–	102
Income statement charge	(2)	–	–	–	–	–	–	(2)
Reclassified from liabilities	–	–	130	–	–	–	–	130
Currency translation differences	(3)	–	–	–	–	–	–	(3)
At 31 March 2010	97	–	130	–	–	–	–	227
Deferred tax liabilities								
At 1 April 2009	–	(165)	(45)	(1,014)	(30)	(42)	(202)	(1,498)
Acquisitions of businesses	–	(5)	–	(6)	–	–	–	(11)
Income statement credit/(charge)	–	50	(19)	120	–	40	(6)	185
Credited to equity	–	–	194	–	–	–	–	194
Reclassified to assets	–	–	(130)	–	–	–	–	(130)
Currency translation differences	–	–	–	7	–	2	–	9
At 31 March 2010	–	(120)	–	(893)	(30)	–	(208)	(1,251)
Net deferred tax assets/(liabilities)	97	(120)	130	(893)	(30)	–	(208)	(1,024)

Unrecognised deferred tax assets and liabilities

Deferred tax assets have only been recognised on deductible temporary differences, unused tax losses or tax credits to the extent that future taxable profits will be available against which the asset can be utilised, or where these can be utilised against other taxable temporary differences. The assets are recorded after reviewing the financial forecasts of the Group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that a taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unprovided deferred tax on losses was £21 million (2010: £18 million) and on other timing differences was £5 million (2010: £nil). Included within these amounts is £7 million relating to trading losses which expire in 10 years. The balance can be carried forward indefinitely.

Deferred tax liabilities of £10 million (2010: £4 million) have not been recognised for the tax that would be payable on the unremitted earnings of certain subsidiary undertakings since the Group has discretion over the manner and timing of any distributions, if any, to be made in the future. Unremitted earnings of these subsidiary undertakings totalled £115 million (2010: £28 million).

25 Trade and other payables

	2011 £million	2010 £million
Current		
Trade payables	**3,410**	2,478
Other taxation and social security	**165**	146
Accruals and deferred income	**571**	461
Liability to acquire equity stakes from non controlling interests	**129**	–
Future dividend obligations to non controlling interests	**18**	–
Other payables	**310**	292
	4,603	3,377
Non-current		
Liability to acquire equity stakes from non controlling interests	**154**	–
Future dividend obligations to non controlling interests	**77**	68
Other payables	**44**	24
	275	92

The liabilities to acquire equity stakes from non controlling interests relate to amounts the Group has committed to further increase its ownership in Hedef Alliance Holding A.S. and Andreae-Noris Zahn AG's subsidiary in Romania (note 33).

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

26 Financial assets and liabilities

The carrying amounts of financial assets and liabilities were:

	2011 £million	2010 £million
Current borrowings		
Bank overdrafts	**(35)**	(271)
Bank loans – other	**(127)**	(109)
Loan notes	**(105)**	(166)
Finance lease liabilities	**(7)**	(10)
	(274)	(556)
Non-current borrowings		
Bank loans – senior facilities	**(7,472)**	(7,550)
Bank loans – subordinated facility	**(606)**	(583)
Bank loans – other	**(173)**	(90)
Other loans	**(9)**	(75)
Finance lease liabilities	**(14)**	(24)
	(8,274)	(8,322)
Total borrowings	**(8,548)**	(8,878)
Cash and cash equivalents	**629**	343
Total borrowings net of cash and cash equivalents	**(7,919)**	(8,535)
Restricted cash	**285**	349
Derivative financial instruments – interest rate and credit instrument assets	**36**	11
Derivative financial instruments – currency and interest rate instrument liabilities	**(245)**	(214)
Net borrowings	**(7,843)**	(8,389)
Available-for-sale investments	**67**	80
Loans to customers and extended terms	**69**	89
Profit participating notes	**163**	37
Loan assets	**51**	2
Trade receivables net of provision for impairment	**3,092**	2,244
Trade payables	**(3,410)**	(2,478)
Liability to acquire equity stakes from non controlling interests	**(283)**	–
Future dividend obligations to non controlling interests	**(95)**	(68)
Net financial liabilities	**(8,189)**	(8,483)

The Group's principal net borrowings arose from the following sources:

- Variable rate committed bank term loans – senior and subordinated facilities. These loans, which are denominated in Sterling, Euros and Swiss Francs, are fully drawn and their aggregate carrying value at 31 March 2011 was £8,078 million (2010: £8,133 million) including the impact of currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017.
- £105 million (2010: £166 million) of loan notes classified within current borrowings, which can be redeemed by the holders giving notice prior to the semi-annual interest payment dates. If no such notice is given the notes will fall due on their contractual maturity dates which are up to 2014. The Group holds a floating rate interest bearing deposit of £105 million (2010: £165 million) shown within restricted cash (note 22) as collateral against loan notes with the same principal amount. This deposit is only available to the Group for the purpose of redeeming the associated loan notes.
- £300 million (2010: £199 million) of other bank loans represent a mix of fixed and variable rate borrowings mostly denominated in Euros and Russian Roubles. These loans mature between 2011 and 2019.
- Bank overdrafts which are repayable on demand.

Maturity profile of financial liabilities

The table below shows the contractual maturities of financial liabilities on an undiscounted basis. Interest payments are calculated based on liabilities held at 31 March 2011 without taking account of any future debt issuance. Floating rate interest was estimated using prevailing interest conditions at 31 March 2011. Cash flows in non-Sterling currencies were translated using prevailing exchange rates at 31 March 2011. All floating rate borrowings re-price within six months of the year end.

2011	Carrying value £million	Aggregate contractual cash flows £million	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million
Fixed						
Other loans	(9)	(11)	(1)	(1)	(9)	–
Bank loans – other	(268)	(292)	(112)	(131)	(35)	(14)
Finance lease liabilities	(21)	(39)	(8)	(6)	(6)	(19)
Floating						
Bank overdrafts	(35)	(35)	(35)	–	–	–
Bank loans – senior facilities	(7,472)	(9,259)	(342)	(379)	(7,544)	(994)
Bank loans – subordinated facility	(606)	(1,002)	(27)	(31)	(117)	(827)
Bank loans – other	(32)	(32)	(32)	–	–	–
Loan notes	(105)	(105)	(105)	–	–	–
Total borrowings	(8,548)	(10,775)	(662)	(548)	(7,711)	(1,854)
Trade payables	(3,410)	(3,410)	(3,410)	–	–	–
Liabilities to acquire equity stakes from non controlling interests	(283)	(336)	(136)	–	(200)	–
Total non-derivative financial liabilities	(12,241)	(14,521)	(4,208)	(548)	(7,911)	(1,854)
Interest rate derivatives:						
– outflows		(78)	(39)	(39)	–	–
– inflows		17	7	10	–	–
	(49)	(61)	(32)	(29)	–	–
Currency swaps:						
– outflows		(876)	(315)	(561)	–	–
– inflows		668	247	421	–	–
	(196)	(208)	(68)	(140)	–	–
Total derivative financial liabilities	(245)	(269)	(100)	(169)	–	–
Total financial liabilities	(12,486)	(14,790)	(4,308)	(717)	(7,911)	(1,854)

In addition to the contractual maturities of financial liabilities presented above, the Group has an ongoing future dividend obligation in relation to the non controlling interest arising on the acquisitions of Hedef Alliance Holding A.S. in the current year and Dollond & Aitchison in the prior year. The contractual undiscounted cash flows are £16 million (2010: £2 million) within one year, £13 million (2010: £4 million) between 1 and 2 years and £27 million (2010: £14 million) between 2 and 5 years.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

26 Financial assets and liabilities continued

2010	Carrying value £million	Aggregate contractual cash flows £million	1 year or less £million	1-2 years £million	2-5 years £million	>5 years £million
Fixed:						
Other loans	(75)	(99)	(6)	(6)	(87)	–
Finance lease liabilities	(34)	(50)	(10)	(9)	(12)	(19)
Floating:						
Bank overdrafts	(271)	(271)	(271)	–	–	–
Bank loans – senior facilities	(7,550)	(10,033)	(335)	(363)	(2,631)	(6,704)
Bank loans – subordinated facility	(583)	(1,089)	(27)	(29)	(135)	(898)
Bank loans – other	(199)	(215)	(110)	(6)	(57)	(42)
Loan notes	(166)	(166)	(166)	–	–	–
Total borrowings	(8,878)	(11,923)	(925)	(413)	(2,922)	(7,663)
Trade payables	(2,478)	(2,478)	(2,478)	–	–	–
Total non-derivative financial liabilities	(11,356)	(14,401)	(3,403)	(413)	(2,922)	(7,663)
Interest rate derivatives:						
– outflows		(103)	(39)	(39)	(25)	–
– inflows		33	6	8	19	–
	(38)	(70)	(33)	(31)	(6)	–
Currency swaps:						
– outflows		(1,074)	(34)	(368)	(672)	–
– inflows		897	36	307	554	–
	(176)	(177)	2	(61)	(118)	–
Total derivative financial liabilities	(214)	(247)	(31)	(92)	(124)	–
Total financial liabilities	(11,570)	(14,648)	(3,434)	(505)	(3,046)	(7,663)

Currency profile

The financial assets and liabilities by currency, before the effects of currency hedging, were:

2011	Total £million	Sterling £million	Euros £million	Swiss Francs £million	Turkish Lira £million	Other £million
Bank overdrafts	(35)	–	(27)	–	–	(8)
Bank loans – senior facilities	(7,472)	(5,217)	(1,985)	(270)	–	–
Bank loans – subordinated facility	(606)	(606)	–	–	–	–
Bank loans – other	(300)	–	(232)	–	(3)	(65)
Other loans	(9)	(9)	–	–	–	–
Loan notes	(105)	(105)	–	–	–	–
Finance lease liabilities	(21)	(20)	(1)	–	–	–
Total borrowings	(8,548)	(5,957)	(2,245)	(270)	(3)	(73)
Cash and cash equivalents	629	162	310	–	71	86
Restricted cash	285	197	85	–		3
Derivative financial instruments – interest rate and credit instrument assets	36	20	16	–	–	–
Derivative financial instruments – currency and interest rate instrument liabilities	(245)	(241)	(4)	–	–	–
Available-for-sale investments	67	15	52	–	–	–
Loans to customers and extended terms	69	–	64	–	–	5
Profit participating notes	163	129	6	28	–	–
Loan assets	51	24	2	–	23	2
Trade receivables net of provision for impairment	3,092	1,080	1,100	–	570	342
Trade payables	(3,410)	(1,273)	(1,059)	–	(487)	(591)
Liabilities to acquire equity stakes from non controlling interests	(283)	–	–	–	(234)	(49)
Future dividend obligations to non controlling interests	(95)	(67)	–	–	(28)	–
Net financial liabilities	(8,189)	(5,911)	(1,673)	(242)	(88)	(275)

2010	Total £million	Sterling £million	Euros £million	Swiss Francs £million	Other £million
Bank overdrafts	(271)	(123)	(141)	–	(7)
Bank loans – senior facilities	(7,550)	(5,258)	(2,043)	(249)	–
Bank loans – subordinated facility	(583)	(583)	–	–	–
Bank loans – other	(199)	–	(155)	–	(44)
Other loans	(75)	(75)	–	–	–
Loan notes	(166)	(166)	–	–	–
Finance lease liabilities	(34)	(29)	(5)	–	–
Total borrowings	(8,878)	(6,234)	(2,344)	(249)	(51)
Cash and cash equivalents	343	50	184	–	109
Restricted cash	349	256	90	–	3
Derivative financial instruments – currency rate and credit instrument assets	11	11	–	–	–
Derivative financial instruments – currency and interest rate instrument liabilities	(214)	(223)	9	–	–
Available-for-sale investments	80	17	63	–	–
Other loans and profit participating note	39	39	–	–	–
Loans to customers and extended terms	89	–	84	–	5
Trade receivables net of provision for impairment	2,244	878	1,158	–	208
Trade payables	(2,478)	(967)	(1,117)	–	(394)
Future dividend obligations to non controlling interests	(68)	(68)	–	–	–
Net financial liabilities	(8,483)	(6,241)	(1,873)	(249)	(120)

Finance lease liabilities

			2011			2010
	Minimum lease payments £million	**Interest £million**	**Present value of minimum lease payments £million**	Minimum lease payments £million	Interest £million	Present value of minimum lease payments £million
Less than one year	**8**	**(1)**	**7**	10	–	10
Between one year and five years	**12**	**(3)**	**9**	21	(3)	18
More than five years	**19**	**(14)**	**5**	19	(13)	6
	39	**(18)**	**21**	50	(16)	34

Under the terms of the finance lease agreements entered into by the Group, no material contingent rents are payable.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

26 Financial assets and liabilities continued

Carrying value and fair value

Carrying values and fair values of the Group's financial assets and liabilities held to finance the Group's operations were:

	2011		2010	
	Carrying value £million	Fair value £million	Carrying value £million	Fair value £million
Liabilities held at amortised cost				
Bank overdrafts	**(35)**	**(35)**	(271)	(271)
Bank loans – senior facilities	**(7,472)**	**(7,566)**	(7,550)	(7,669)
Bank loans – subordinated facility	**(606)**	**(620)**	(583)	(598)
Bank loans – other	**(300)**	**(300)**	(199)	(199)
Other loans	**(9)**	**(9)**	(75)	(75)
Loan notes	**(105)**	**(105)**	(166)	(166)
Finance lease liabilities	**(21)**	**(34)**	(34)	(46)
Liabilities to acquire equity stakes from non controlling interests	**(283)**	**(283)**	–	–
Future dividend obligations to non controlling interests	**(95)**	**(95)**	(68)	(68)
Trade payables	**(3,410)**	**(3,410)**	(2,478)	(2,478)
	(12,336)	**(12,457)**	(11,424)	(11,570)
Liabilities held at fair value				
Derivative instruments – interest rate	**(49)**	**(49)**	(38)	(38)
Derivative instruments – currency	**(196)**	**(196)**	(176)	(176)
	(245)	**(245)**	(214)	(214)
Loans and receivables financial assets				
Trade receivables net of provision for impairment	**3,092**	**3,092**	2,244	2,244
Loans to customers and extended terms	**69**	**69**	89	89
Loan assets	**51**	**51**	2	2
Profit participating notes	**163**	**163**	37	37
	3,375	**3,375**	2,372	2,372
Financial assets held at fair value				
Derivative instruments – currency	–	–	1	1
Derivative instruments – interest and credit	**36**	**36**	10	10
Available-for-sale investments	**67**	**67**	80	80
	103	**103**	91	91
Cash and cash equivalents	**629**	**629**	343	343
Restricted cash	**285**	**285**	349	349
Net financial liabilities	**(8,189)**	**(8,310)**	(8,483)	(8,629)

The fair values of bank overdrafts, bank loans - other, trade receivables and loans to customers approximate to their carrying values due to either their short term nature or being re-priced at variable interest rates. The carrying values of the senior facilities and subordinated facility bank loans, which are variable rate, were lower than the fair values of the instruments due mainly to the impact of unamortised fees included in the carrying value.

The carrying values of financial assets and liabilities held at fair value, as analysed by the levels of the fair value hierarchy, were:

2011	Level 1 £million	Level 2 £million	Total £million
Financial liabilities			
Forward currency exchange derivatives	–	**(2)**	**(2)**
Interest rate derivatives	–	**(49)**	**(49)**
Cross currency swap derivatives	–	**(194)**	**(194)**
	–	**(245)**	**(245)**
Financial assets			
Derivative instruments – interest and credit	–	**36**	**36**
Available-for-sale investments	**67**	–	**67**
	67	**36**	**103**

2010	Level 1 £million	Level 2 £million	Total £million
Financial liabilities			
Interest rate derivatives	–	(38)	(38)
Cross currency swap derivatives	–	(176)	(176)
	–	(214)	(214)
Financial assets			
Forward currency exchange derivatives	–	1	1
Derivative instruments – credit	–	10	10
Available-for-sale investments	80	–	80
	80	11	91

The levels of the fair value hierarchy reflect the significance of the valuation inputs used in making fair value measurements and are defined as follows:

Level 1: quoted prices in active markets for the same instrument.

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: valuation techniques for which any significant input is not based on observable market data.

Derivative financial instruments

The derivative financial instruments that the Group holds are not traded in an active market. Accordingly, their fair values are determined by using suitable valuation techniques that do not make use of entity-specific estimates or by using movements in observable prices for underlying financial instruments attributable to the hedged risks. The fair value of interest rate swaps is calculated by discounting the estimated cash flows received and paid based on the applicable observable yield curves using the risk-free interest rate. The fair value of interest rate caps is calculated using an options pricing methodology. The fair value of cross currency contracts and forward currency contracts is estimated by discounting the difference between the contractual forward price and the current available forward price for the residual maturity of the contract using the risk-free interest rate. The fair value of credit derivatives is calculated by discounting anticipated cash flows using the applicable observable yield curve plus a margin derived from the current trading value of the underlying security. All computed fair values for derivative financial instruments include an appropriate adjustment for own and counterparty credit risk as appropriate.

Available-for-sale investments

The fair values of quoted investments are based on current bid prices.

27 Financial risk management

Capital risk management

The Group's objectives in managing its capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure that reduces the cost of capital.

The Group defines its capital employed of £12,967 million (2010: £12,729 million) as total equity of £5,124 million (2010: £4,340 million) and net borrowings of £7,843 million (2010: £8,389 million).

The ability of certain Group companies to pay dividends, for ultimate distribution to shareholders, is restricted by the terms of the financing agreements to which they are party.

Financial risk management – overview

The Group's trading and financing activities expose it to various financial risks that could adversely impact on future earnings and cash flows. Although not necessarily mutually exclusive, these financial risks are categorised separately according to their different generic risk characteristics and include market risk (foreign currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group is actively engaged in the management of all of these financial risks in order to moderate their potential adverse impact on the Group's financial performance and position.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Access to cost-effective funding is managed by maintaining a range of committed and uncommitted facilities, sufficient to meet anticipated needs, arranging funding ahead of requirements, and developing diversified sources of funding.

Group liquidity is optimised through cash pooling and deposits with, or loans from, Group treasury companies.

The Group's core borrowings are provided through committed term loans. The carrying value of these loans, which are denominated in Sterling, Euros and Swiss Francs, at 31 March 2011 was £8,078 million (2010: £8,133 million) including the impact of repurchases, currency revaluation and reported net of unamortised fees incurred in respect of the loans. These loans mature between 2014 and 2017. The Group also has access to a committed £702 million (2010: £820 million) revolving credit facility, £nil (2010: £14 million) of which was drawn down at 31 March 2011, £176 million (2010: £184 million) of which was utilised in providing guarantees and letters of credit principally to the Boots Pension Scheme and £526 million (2010: £622 million) of which was available as at 31 March 2011. This facility provides access to funding in a range of currencies and is available until 2014.

The Group's net borrowings vary throughout the year in a predictable seasonal pattern subject to material acquisitions and disposals. In particular, net borrowings peak in the period between September and October due to the working capital requirements of Christmas trading.

The Group monitors its net borrowing position on a daily basis against both budget and a rolling two month cash forecast. The maturity profile of the Group's financial liabilities at 31 March 2011 is shown in note 26.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

27 Financial risk management continued

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, derivative financial instruments, cash balances, restricted cash, short term deposits and profit participating notes.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, at the year end.

Credit risk exposure to commercial counterparties is managed through credit control functions in each of the businesses. New customers are credit checked, customer limits are reviewed at least annually and aged receivable reviews are undertaken regularly.

The Group considers the possibility of significant loss in the event of non-performance by a financial or commercial counterparty to be unlikely.

At 31 March 2011 there were no significant concentrations of credit risk in respect of trade receivables and customer loans. The largest credit exposure of the Group at 31 March 2011 was to the National Health Service in the UK.

The maximum exposure to credit risk for trade receivables, including loans to customers and extended terms, net of provision for impairment, other loans and the profit participating notes at 31 March 2011 by geographic region was:

	2011 £million	2010 £million
UK	**908**	914
Other European countries	**1,757**	1,453
Other countries	**710**	5
	3,375	2,372

Exposures to other financial counterparties arise from other non trade receivables, the use of derivative financial instruments, cash balances and short term deposits. The Group protects itself against the risk of financial loss arising from the failure of financial counterparties by setting ratings based limits to the maximum exposure to individual counterparties or their groups. Limits are set by reference to ratings issued by the major rating agencies, Standard and Poor's and Moody's Investors Service Limited.

At 31 March 2011 total exposures of the Group to other financial counterparties was £1,164 million (2010: £779 million) of which £36 million (2010: £48 million) related to derivative financial instruments, £629 million (2010: £343 million) was in respect of cash and cash equivalents, £285 million (2010: £349 million) was in respect of restricted cash and £214 million (2010: £39 million) was in respect of profit participating notes and other loans.

£564 million (2010: £439 million) of derivative financial assets, cash and cash equivalents and restricted cash relate to balances managed centrally by Group treasury spread across a number of high quality counterparties, all of whom have a credit rating of A or better. The remaining £386 million (2010: £301 million) of cash and cash equivalents represents short term deposits, restricted cash, cash-in-transit and cash held in operational bank accounts across the Group.

The profit participating notes are issued by, and other loans are invested in, or lent to, unrated entities.

Market risk

Market risk is the risk that changes in market prices, such as currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risks within acceptable parameters. The Group transacts in financial instruments including derivatives in order to manage these risks in accordance with the Group treasury policies approved by the Board.

Currency risk

The Group is party to a variety of currency derivatives in the management of exchange rate exposures, including cross currency swaps and forward currency exchange contracts. Movements in the fair value of all forward currency exchange contracts other than those that are designated and effective as cash flow hedges or net investment hedges are reported directly in the income statement.

Currency transaction risk

The Group utilises forward currency exchange derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of a Group entity.

At 31 March 2011, the Group had no outstanding forward currency exchange contracts (2010: £nil) that were designated and effective as cash flow hedges of committed forecast transactions.

A loss of £1 million was recycled from the cash flow hedge reserve to cost of sales in respect of contracts designated as cash flow hedges of the attributable currency risk on highly probable forecast transactions (2010: loss of £4 million). During the year there were no gains or losses recycled from the cash flow hedge reserve to non-current non-financial assets in respect of contracts designated as cash flow hedges of the attributable currency risk on capital expenditure projects (2010: gain of £1 million).

The Group has significant non-Sterling denominated currency net investments denominated in Euros and Swiss Francs and in addition uses derivative financial instruments, specifically cross currency swaps, forward currency exchange contracts and non-Sterling currency borrowings to hedge the non-Sterling currency risk.

The Group has a number of cross currency swap contracts in place. At 31 March 2011, the fair value of the Group's cross currency swaps was a liability of £194 million (2010: £176 million). £46 million (2010: £37 million) of the liability related to cross currency swaps designated as net investment hedges of non-Sterling denominated currency net investments and the associated movements in fair value have been deferred in equity. The remaining liability of £148 million (2010: £139 million) related to cross currency swaps designated as held for trading. The currency exchange risk associated with these swaps was hedged through the use of short dated forward currency exchange contracts designated as held for trading.

The effect of currency swaps and forward currency exchange contracts to manage translation risk on net borrowings was:

	2011 Before hedging £million	**2011 After hedging £million**	2010 Before hedging £million	2010 After hedging £million
Sterling	**(5,819)**	**(5,921)**	(6,140)	(5,945)
Euro	**(1,838)**	**(1,828)**	(2,061)	(2,063)
Swiss Franc	**(270)**	**(363)**	(249)	(348)
Other	**84**	**269**	61	(33)
Total net borrowings	**(7,843)**	**(7,843)**	(8,389)	(8,389)

At 31 March 2011 the total notional amount of outstanding forward currency exchange contracts that the Group has committed was £487 million (2010: £312 million).

At 31 March 2011 the statement of financial position carrying value of the Group's outstanding forward currency exchange contracts was a £2 million liability (2010: £1 million asset).

Currency risk – sensitivity analysis

The table below shows the Group's sensitivity to non-Sterling exchange rates on its non-Sterling financial instruments, excluding trade payables and trade receivables, which do not represent a significant exposure to exchange rates.

A 10% (2010: 10%) strengthening of Sterling against the following currencies would have increased/(decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant and that instruments designated as net investment hedges remain highly effective. In this table financial instruments are only considered sensitive for exchange rates where they are not in the functional currency of the entity that holds them.

	2011 Impact on equity £million	**2011 Impact on profit £million**	2010 Impact on equity £million	2010 Impact on profit £million
Euro	**71**	**(1)**	76	(1)
Swiss Franc	**35**	–	35	–
Turkish Lira	–	**(11)**	–	–
Other	**2**	–	2	1

A 10% (2010: 10%) weakening of Sterling against these currencies at 31 March 2011 would have had the equal and opposite effect to that shown above on the basis that all other variables remain constant.

The movements in equity relate to non-Sterling borrowings and cross currency swaps used to hedge Group assets denominated in those currencies. An appreciation in the value of the borrowing or cross currency swap would be matched by a corresponding depreciation in the value of the related Group asset, which would also be recorded in equity. Exchange rate sensitivities on Group assets other than financial instruments have not been shown in the table above.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

27 Financial risk management continued

Cash flow interest rate risk

The Board's policy is to protect its ability to service its debt obligations by ensuring that floating rate interest payments on not less than 50% of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc are hedged. Exposures are hedged through a combination of interest rate caps and interest rate swaps.

The Group has a mixture of fixed and floating rate borrowings. Before the impact of derivative financial instruments, £298 million or 3.5% (2010: £109 million or 1.2%) of total borrowings were at fixed interest rates. The re-pricing risk of the fixed borrowings coincides with their maturity. The floating rate borrowings re-price within 6 months of the reporting date, based on short term borrowing rates for the relevant currency.

The Group has interest rate swaps with notional principal amounts of £500 million (2010: £500 million) and €10 million (2010: €12 million) to swap outstanding borrowings from floating to fixed rates. The Group has interest rate caps with notional principal amounts of £3,500 million (2010: £3,500 million) and €1,623 million (2010: €1,623 million) to protect the Group from rising interest rates on the corresponding amounts of borrowings until July 2012. The Group also has interest rate caps effective between July 2012 and July 2015 with notional principal amounts of £1,500 million and €2,000 million respectively.

After taking into account the impact of derivative financial instruments, £5,610 million or 66% (2010: £5,443 million or 61%) of the Group's total borrowings were at fixed or capped interest rates. All other borrowings re-price within six months of the year end.

At 31 March 2011, £5,410 million or 66% (2010: £5,438 million or 66%) of the principal outstanding under the facilities raised to finance the acquisition of Alliance Boots plc was hedged.

The impact of a 1% increase and a 1% decrease in interest rates on 31 March 2011 on pre tax profit are shown in the table below. This analysis assumes that all other variables are held constant. On this basis there would have been no significant amounts recognised directly in equity.

	2011 1% increase in interest rates £million	**2011 1% decrease in interest rates £million**	2010 1% increase in interest rates £million	2010 1% decrease in interest rates £million
Gain/(loss) – derivative financial instruments	**44**	**(28)**	63	(40)
Gain/(loss) – variable rate financial instruments	**(76)**	**76**	(84)	84

Equity price risk

The Group is exposed to equity price risk through its long term holdings of listed and unlisted securities, which are classified as available-for-sale investments and held at fair value. The associated measurement volatility on these investments is recorded directly in equity, unless an equity instrument has suffered a significant and prolonged decline, in which case an impairment loss is recorded in profit or loss.

Equity price risk – sensitivity analysis

The potential impact on the Group's equity resulting from the application of +/-5% movement in the fair value of its available-for-sale investments would have been a gain/(loss) recorded in the available-for-sale reserve of £3 million (2010: £4 million).

28 Analysis of movement in net borrowings

Set out below is a reconciliation of the net increase in cash and cash equivalents to the increase in net borrowings at 31 March 2011:

	2011 £million	2010 £million
Net increase/(decrease) in cash and cash equivalents	**529**	(144)
Net (decrease)/increase in restricted cash	**(63)**	5
Cash and cash equivalents outflow from decrease in debt and debt financing	**426**	644
Movement in net borrowings resulting from cash flows	**892**	505
Discounts on repurchase of acquisition borrowings	**4**	128
Borrowings acquired with businesses	**(419)**	(1)
Borrowings derecognised on disposal of businesses	**100**	–
Finance leases entered into	**–**	(6)
Amortisation of prepaid financing fees	**(26)**	(30)
Capitalised finance costs	**(21)**	(19)
Currency translation differences and fair value adjustments on financial instruments	**16**	68
Movement in net borrowings in the year	**546**	645
Net borrowings at 1 April	**(8,389)**	(9,034)
Net borrowings at 31 March	**(7,843)**	(8,389)

Cash and cash equivalents outflow from decrease in debt and debt financing comprised of proceeds from borrowings of £23 million (2010: £39 million), less repayment of borrowings, repurchase of acquisition borrowings and settlement of derivatives of £439 million (2010: £666 million) and repayment of capital element of finance lease obligations of £10 million (2010: £17 million).

Set out below is an analysis of the movement in net borrowings during the year:

2011	**Cash and cash equivalents £million**	**Restricted cash £million**	**Borrowings within current liabilities £million**	**Borrowings within non-current liabilities £million**	**Derivative financial instruments £million**	**Net borrowings £million**
At 1 April 2010	**343**	**349**	**(556)**	**(8,322)**	**(203)**	**(8,389)**
Net increase in cash and cash equivalents	**294**	–	**235**	–	–	**529**
Net decrease in restricted cash	–	**(63)**	–	–	–	**(63)**
Cash and cash equivalents outflow from decrease in debt and debt financing	–	–	**211**	**219**	**(4)**	**426**
Discounts on repurchase of acquisition borrowings	–	–	–	**4**	–	**4**
Borrowings acquired with businesses	–	–	**(222)**	**(197)**	–	**(419)**
Borrowings derecognised on disposal of businesses	–	–	**57**	**43**	–	**100**
Amortisation of prepaid financing fees	–	–	–	**(26)**	–	**(26)**
Capitalised finance costs	–	–	–	**(21)**	–	**(21)**
Non-cash movements	–	–	**(7)**	**7**	–	–
Currency translation differences and fair value adjustments on financial instruments	**(8)**	**(1)**	**8**	**19**	**(2)**	**16**
At 31 March 2011	**629**	**285**	**(274)**	**(8,274)**	**(209)**	**(7,843)**

2010	Cash and cash equivalents £million	Restricted cash £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 1 April 2009	473	343	(930)	(8,674)	(246)	(9,034)
Net decrease in cash and cash equivalents	(125)	–	(19)	–	–	(144)
Net increase in restricted cash	–	5	–	–	–	5
Cash and cash equivalents outflow from decrease in debt and debt financing	–	–	396	199	49	644
Discounts on repurchase of acquisition borrowings	–	–	–	128	–	128
Borrowings acquired with businesses	–	–	(1)	–	–	(1)
Finance leases entered into	–	–	(2)	(4)	–	(6)
Amortisation of prepaid financing fees	–	–	–	(30)	–	(30)
Capitalised finance costs	–	–	–	(19)	–	(19)
Non-cash movements	–	–	(9)	9	–	–
Currency translation differences and fair value adjustments on financial instruments	(5)	1	9	69	(6)	68
At 31 March 2010	343	349	(556)	(8,322)	(203)	(8,389)

In the Group statement of cash flows, cash and cash equivalents included bank overdrafts classified as borrowings within current liabilities in the statement of financial position, which amounted to £35 million (2010: £271 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

29 Movement in net borrowings resulting from acquisitions and disposals of businesses and investments

	2011 £million	2010 £million
Acquisitions of businesses	(222)	(11)
Net borrowings of businesses acquired:		
– cash and cash equivalents net of overdrafts	363	–
– borrowings	(419)	(1)
Disposal of businesses	62	–
Net borrowings of businesses disposed:		
– overdrafts net of cash and cash equivalents	114	–
– borrowings	100	–
Disposal of associates and pharmacies classified as held for sale	–	18
Purchase of non controlling interests	(66)	(10)
	(68)	(4)

30 Provisions

2011	Restructuring and reorganisation £million	Vacant property £million	Other £million	Total £million
At 1 April 2010	45	30	6	81
Acquisitions of businesses	–	–	18	18
Disposals of businesses	–	–	(1)	(1)
Provisions created during the year	48	8	3	59
Provisions utilised during the year	(30)	(9)	(1)	(40)
Provisions released during the year	(1)	–	–	(1)
Unwinding of discount on provisions	–	1	–	1
At 31 March 2011	62	30	25	117
Current	45	11	3	59
Non-current	17	19	22	58
	62	30	25	117

Restructuring and reorganisation

The restructuring and reorganisation provision relates primarily to the restructuring programmes announced in the Pharmaceutical Wholesale Division and in the UK part of the Health & Beauty Division and related contract manufacturing activities respectively.

Vacant property

The vacant property provisions represent recognition of the present value of the expected net costs arising from vacant properties and sub-let properties. The exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Other

The other provision relates mainly to long service award entitlements accrued on a probability-weighted basis.

31 Share capital

	2011 Number of shares	2011 £million	2010 Number of shares	2010 £million
Ordinary shares of CHF1,000:				
Authorised	2,098,000		2,098,000	
Allotted, called up and fully paid	2,098,000	1,065	2,098,000	1,065

32 Equity

Other reserves movements within equity were:

2011	**Available-for-sale reserve £million**	**Translation reserve £million**	**Cash flow hedge reserve £million**	**Special reserve £million**	**Associates' and joint ventures' other comprehensive income £million**	**Total £million**
At 1 April 2010	**27**	**229**	–	**(34)**	**(10)**	**212**
Transfer to non controlling interests	–	–	–	**34**	–	**34**
Net exchange differences on translation of non-Sterling denominated operations	–	**(12)**	–	–	–	**(12)**
Net fair value movements on cash flow hedging instruments	–	–	**(1)**	–	–	**(1)**
Cumulative net fair value movements on cash flow hedging instruments recycled to the income statement and to non-current non-financial assets	–	–	**1**	–	–	**1**
Net fair value losses on available-for-sale investments deferred in equity	**(7)**	–	–	–	–	**(7)**
Gains on change of status from available-for-sale investments to subsidiary	**(2)**	–	–	–	–	**(2)**
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	–	**6**	**6**
Liabilities to acquire equity stakes from non controlling interests	–	–	–	**(362)**	–	**(362)**
Purchase of non controlling interests	–	–	–	**91**	–	**91**
Tax	–	**25**	–	–	–	**25**
At 31 March 2011	**18**	**242**	–	**(271)**	**(4)**	**(15)**

2010	Available-for-sale reserve £million	Translation reserve £million	Cash flow hedge reserve £million	Special reserve £million	Associates' and joint ventures' other comprehensive income £million	Total £million
At 1 April 2009	(3)	193	1	–	–	191
Net exchange differences on translation of non-Sterling denominated operations	–	36	–	–	–	36
Net fair value movements on cash flow hedging instruments	–	–	(4)	–	–	(4)
Cumulative net fair value movements on cash flow hedging instruments recycled to the income statement and to non-current non-financial assets	–	–	3	–	–	3
Net fair value gains on available-for-sale investments deferred in equity	30	–	–	–	–	30
Share of post tax other comprehensive income of associates and joint ventures	–	–	–	–	(10)	(10)
Future dividend obligations to non controlling interests	–	–	–	(30)	–	(30)
Transfer from non controlling interests	–	–	–	(4)	–	(4)
At 31 March 2010	27	229	–	(34)	(10)	212

The nature and purpose of each reserve in equity is:

Retained earnings

The Group's retained earnings reserve, which is presented in the Group's statement of changes in equity, comprises the Group's retained earnings, net of distributions made to equity holders, together with actuarial gains and losses on defined benefit schemes and related tax movements.

Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in the fair value of the Group's available-for-sale investments. Net fair value movements are recycled to the income statement if an underlying available-for-sale investment is either derecognised or impaired.

Translation reserve

The translation reserve comprises all currency exchange differences arising from the translation of the financial statements of non-Sterling denominated operations into the presentation currency of the Group, as well as from the translation of financial liabilities that hedge the Company's net investment in non-Sterling denominated subsidiaries.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

32 Equity continued

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to the hedged risks on highly probable forecast transactions that have not yet occurred. When a forecast transaction occurs and the hedged risk is realised, an appropriate amount is recycled from the cash flow hedge reserve either to the income statement or to the carrying value of a non-current non-financial asset, according to where the underlying cash flow is recorded.

Special reserve

The special reserve comprises amounts recorded on the recognition and subsequent measurement of commitments to acquire equity stakes from non controlling interests. In the prior year, the reserve included the excess of the future dividend obligations over the equity held by non controlling interests, and following the adoption of IFRS 3 Business Combinations (2008) this excess was transferred to equity attributable to non controlling interests.

Associates' and joint ventures' other comprehensive income

The associates' and joint ventures' other comprehensive income reserve records the Group's share of post tax other comprehensive income of associates and joint ventures.

33 Acquisitions and disposals of businesses

Acquisitions during the year ended 31 March 2011

The Group's two major acquisitions during the year were the acquisitions of a controlling interest in Hedef Alliance Holding A.S. ("Hedef Alliance") in July 2010 and of a controlling interest in Andreae-Noris Zahn AG ("ANZAG") in December 2010. Both were previously associates of the Group.

Hedef Alliance

The Group increased its shareholding in Hedef Alliance to 70% in two stages during the year, having previously held a 50% associate interest. In addition, the Group has committed to further increasing its ownership over the next two years. These commitments have been recognised as financial liabilities within the consolidated statement of financial position. Hedef Alliance is one of the largest pharmaceutical wholesalers in Turkey, and has a controlling 50% interest in United Company of Pharmacists S.A.E. ("UCP"), the leading pharmaceutical wholesaler in Egypt, and a 30% associate interest in Hydra Pharm SPA, the largest wholesaler in Algeria.

The Group obtained control of Hedef Alliance on 23 July 2010 by acquiring an additional 10% stake for consideration of £94 million which was settled in cash. A further 10% stake was acquired on 18 February 2011 for consideration of £86 million, of which £23 million was deferred at 31 March 2011.

The net assets acquired at the date of acquisition, as adjusted from book to fair value, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	–	237	237
Property, plant and equipment	34	23	57
Investments in associates and joint ventures	10	4	14
Inventories	284	–	284
Trade and other receivables	758	–	758
Cash and cash equivalents net of borrowings	102	–	102
Trade and other payables, and provisions	(741)	–	(741)
Deferred tax liabilities	(5)	(52)	(57)
	442	212	654
Goodwill arising on acquisition			215
Non controlling interests			(375)
Fair value of existing interest			(400)
			94
Satisfied by:			
– cash			94

The goodwill of £215 million represents the intangible assets which could not be individually separated and reliably measured due to their nature. This included the growth opportunities presented through investment in international businesses in large and growing markets. The non controlling interests have been measured at fair value. The remeasurement to fair value of the Group's existing 50% associate interest in Hedef Alliance resulted in a gain of £22 million (fair value of £400 million less £378 million carrying value of equity accounted associate at acquisition date), which was recognised in the income statement within profit from operations.

ANZAG

Through Alliance Healthcare Deutschland Holdings 1 GmbH, a company owned 80% by the Group and 20% by a fellow subsidiary owned by the Group's parent and ultimate controlling entity, the Group acquired a controlling shareholding in ANZAG. Alliance Healthcare Deutschland Holdings 1 GmbH initially acquired the Group's pre-existing 29.99% interest, subsequently increased this by 51.89% to 81.88% in two stages during the year. ANZAG is one of the largest pharmaceutical wholesalers in Germany and has a controlling interest in a pharmaceutical wholesale business and health & beauty business in Lithuania, a pharmaceutical wholesale business in Romania and an associate interest in a pharmaceutical wholesale business in Croatia which also trades in Bosnia Herzegovina, Serbia and Slovenia.

The Group obtained control of ANZAG on 16 December 2010 by Alliance Healthcare Deutschland Holdings 1 GmbH acquiring an additional 51.65% stake for consideration of £121 million which was all settled in cash. Following a tender offer for the remaining shares, a further 0.24% stake was acquired on 1 February 2011 for consideration of £1 million.

The net assets acquired at the date of acquisition, as adjusted from book to fair value, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	3	34	37
Property, plant and equipment	104	–	104
Investments in associates and joint ventures	16	–	16
Inventories	303	–	303
Trade and other receivables	403	–	403
Net borrowings	(158)	–	(158)
Trade and other payables, and provisions	(391)	–	(391)
Retirement benefit obligations	(52)	–	(52)
Deferred tax liabilities	(2)	(9)	(11)
Total identifiable net assets	226	25	251
Transfer to special reserve			45
Negative goodwill arising on acquisition			(16)
Non controlling interests			(87)
Fair value of existing interest			(71)
			122
Satisfied by:			
– cash			122

The negative goodwill reflects the value of net assets employed relative to ANZAG's enterprise value, and in accordance with IFRS 3 Business Combinations was included in the income statement within profit from operations. The non controlling interests have been measured at fair value. The remeasurement to fair value of the Group's existing 29.99% interest in ANZAG resulted in a loss of £3 million (fair value of £71 million less £74 million carrying value of equity accounted associate at acquisition date), which has been recognised in the income statement within profit from operations.

The consolidated income statement includes revenue of £1,714 million and profit of £68 million in respect of Hedef Alliance, and revenue of £1,047 million and profit of £7 million in respect of ANZAG since their respective acquisition dates. If Hedef Alliance and ANZAG had both been subsidiaries of the Group from the beginning of the year, taking into account their respective results prior to acquisition, revenue and profit for the combined Group on a pro forma basis would have been £23,738 million and £639 million respectively.

Other acquisitions

In addition, the Group acquired a number of businesses in the year for cash consideration totalling £6 million. Net assets identified included the fair value of the pharmacy licences of £5 million. Goodwill on these acquisitions was £2 million and non controlling interests recognised was £2 million.

Acquisition related costs

The Group incurred acquisition related costs of £8 million in respect of the acquisitions described above and other acquisition related projects. These costs have been included within administrative costs in the Group's consolidated income statement and classified as exceptional items.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

33 Acquisitions and disposals of businesses continued

Acquisitions during the year ended 31 March 2010

The principal business acquisition in the year ended 31 March 2010 was Dollond & Aitchison on 5 May 2009 which was merged with Boots Opticians to form the second largest optical chain in the UK. The combined entity, which now trades as Boots Opticians, is being run as a stand-alone business within Alliance Boots. The acquisition was by way of a share-for-share exchange.

Details of the net assets acquired of Dollond & Aitchison at the date of acquisition, as adjusted from book to fair value, the purchase consideration transferred, and the attributable goodwill were:

	Book value at acquisition £million	Fair value adjustments £million	Fair value £million
Other intangible assets	5	18	23
Property, plant and equipment	12	6	18
Inventories	7	(1)	6
Trade and other receivables	5	–	5
Net borrowings	(1)	–	(1)
Trade and other payables, and provisions	(26)	–	(26)
Deferred tax liabilities	–	(11)	(11)
	2	12	14
Goodwill arising on acquisition – attributable to the equity holders			44
Non controlling interest in business acquired			(6)
			52
Satisfied by:			
– shares			52

The acquisition of Dollond & Aitchison was satisfied through the transfer of shares in Boots Opticians to the vendor of Dollond & Aitchison which now holds a non controlling interest of 42% in the combined Boots Opticians business. As part of the consideration, pre-existing goodwill of £26 million was derecognised and the net increase in goodwill in relation to the acquisition was £18 million.

The goodwill arising on the acquisition of this business represented the synergistic value in combining two large businesses in the market.

The Group has an ongoing future dividend obligation to the non controlling interest.

In addition, the Group acquired a pharmacy in the year ended 31 March 2010 for cash consideration of £1 million comprising the fair value of the pharmacy licence. The Group recorded a further £10 million of cash consideration relating to acquisitions made in prior years.

Disposals

On 31 July 2010 the Group sold 51% of its interest in its Italian subsidiary Alliance Healthcare Italia S.p.a. to a fellow wholly owned subsidiary of AB Acquisitions Holdings Limited, the Group's parent and ultimate controlling entity (note 12).

34 Operating leases

At 31 March 2011 outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due were:

	2011 £million	2010 £million
Less than one year	**321**	312
Between one and five years	**988**	999
More than five years	**1,151**	1,245
	2,460	2,556

The Group leases a number of its properties under operating leases. The leases run predominantly for periods from 1 to 25 years, with options to break the leases during the period and renew the leases at the end of the period. Lease rentals are increased at regular intervals to reflect market rentals. None of the leases include material contingent rentals. Rental income from sub-let properties was £24 million (2010: £18 million).

35 Commitments and contingent liabilities

Commitments

Capital expenditure contracted for at the year end but not yet incurred was £37 million (2010: £23 million) in respect of property, plant and equipment and software.

Contingent liabilities

The Group had aggregate contingent liabilities of £87 million (2010: £14 million), including £25 million for letters of guarantee provided to certain suppliers, a £17 million guarantee provided by Andreae-Noris Zahn AG for certain of its customers and a financial guarantee issued to a third party to underwrite £10 million of loan finance on asset disposals that occurred in a prior year.

36 Retirement benefit schemes

The Group operates a number of retirement benefit schemes in the UK and other countries including both defined benefit and defined contribution schemes.

Defined benefit schemes

UK schemes

The Group has two principal schemes in the UK, being the Boots Pension Scheme and the Alliance UniChem UK Pension Scheme, both of which have been closed to new members for a number of years.

Both schemes entered into Memoranda of Understanding during 2007/08 with the Group, the main elements of which were an agreement that conservative investment strategies would be maintained (the Boots Pension Scheme has continued with its investment strategy of planning to hold 15% of its assets in equity and property to back long term liabilities, and 85% of its assets in a diverse portfolio of high quality bonds to match liabilities up to 35 years), and a commitment to pay additional contributions. The additional cash contributions comprised £102 million in 2007/08 with a further £366 million to be made over ten years from August 2008. £20 million was paid in 2010/11, with the same amount committed in 2011/12 and 2012/13 respectively.

Following an extensive consultation process, the Group implemented a new defined contribution scheme in the UK with effect from 1 July 2010, and as a result, all the Group's pension schemes in the UK were closed to future accrual from that date, giving rise to curtailment gains.

The obligations of the Alliance UniChem UK Group Pension Scheme were subsequently transferred to an insurer for a cash payment of £80 million, giving rise to a settlement loss, prior to the scheme being fully bought out.

The Boots Pension Scheme is currently undergoing its triennial actuarial funding valuation, and in March 2011, as part of the funding plan, the Group and the scheme's trustees established a pension funding partnership structure. Under this structure, the Group contributed an interest in the partnership worth £146 million to the scheme, and transferred a number of properties to the partnership under a sale and leaseback arrangement. The partnership will make annual distributions of around £10 million to the scheme for 20 years and a capital sum in 2031 equal to the lower of £156 million and any funding deficit in the scheme at that point in time . Furthermore, the Group has committed to make a payment into the Boots Pension Scheme of up to £156 million in 2031, if and to the extent the scheme remains in deficit at that time. The scheme's interest in the partnership reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 accounting basis, as the investment held by the scheme in the partnership does not qualify as an asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

Non-UK schemes

The Group also closed its defined benefit pension schemes to future accrual in the Republic of Ireland and Norway, and subsequently transferred the obligations of the Norwegian schemes to a third party.

The net amount recognised in respect of defined benefit schemes was:

	2011 £million	2010 £million
Present value of defined benefit scheme liabilities	**(4,363)**	(4,684)
Less fair value of defined benefit scheme assets:		
– bonds	**3,488**	3,536
– equities	**510**	555
– other plan assets	**151**	131
	4,149	4,222
Surplus restriction	**(9)**	–
	(223)	(462)

The change in the present value of defined benefit scheme liabilities was:

	2011 £million	2010 £million
At 1 April	**4,684**	3,354
Acquisitions of businesses	**56**	–
Current service costs	**23**	47
Past service costs	**(66)**	6
Curtailment gains	**(96)**	(8)
Settlement	**(237)**	–
Interest on defined benefit scheme liabilities	**235**	225
Net actuarial (gains)/losses	**(73)**	1,224
Employee contributions	**1**	3
Benefits paid	**(163)**	(166)
Currency translation differences	**(1)**	(1)
At 31 March	**4,363**	4,684

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

36 Retirement benefit schemes continued

The change in the fair value of defined benefit scheme assets was:

	2011 £million	2010 £million
At 1 April	**4,222**	3,542
Acquisitions of businesses	**4**	–
Expected returns on defined benefit scheme assets	**206**	207
Settlement	**(327)**	–
Experience adjustments	**81**	530
Employer contributions	**125**	109
Employee contributions	**1**	3
Benefits paid	**(163)**	(166)
Currency translation differences	–	(3)
At 31 March	**4,149**	4,222

The Group expects to contribute approximately £33 million, including £30 million of deficit funding, to its defined benefit schemes in the year ended 31 March 2012.

The net expense recognised in the income statement comprised:

	2011 £million	2010 £million
Current service costs	**(23)**	(47)
Past service costs	**66**	(6)
Curtailment gains	**96**	8
Settlement loss	**(90)**	–
	49	(45)
Expected returns on defined benefit scheme assets	**206**	207
Interest on defined benefit scheme liabilities	**(235)**	(225)
	20	(63)

The curtailment gains relate to the closure of a number of the schemes to future accrual and the settlement loss relates to the transfer of the obligations of the Alliance UniChem UK Group Pension Scheme to an insurer.

The expense was recognised in the following line items in the income statement:

	2011 £million	2010 £million
Selling, distribution and store costs	**38**	(35)
Administrative costs	**11**	(10)
Finance income	**206**	207
Finance costs	**(235)**	(225)
	20	(63)

The amounts recognised in the statement of other comprehensive income were:

	2011 £million	2010 £million
Experience (losses)/gains on defined benefit scheme liabilities	**(67)**	48
Changes in assumptions underlying the present value of defined benefit scheme liabilities	**140**	(1,272)
Experience gains on defined benefit scheme assets	**81**	530
Surplus restriction	**(9)**	–
	145	(694)

The cumulative amount of actuarial gains and losses recognised in the statement of other comprehensive income at 31 March 2011 was a net loss of £511 million (2010: £665 million loss).

The amounts recognised for the fair value of scheme assets, the present value of scheme liabilities and experience gains/(losses) on scheme assets and liabilities for the past four years ended 31 March, were:

	2011 £million	2010 £million	2009 £million	2008 £million
Present value of scheme liabilities	**(4,363)**	(4,684)	(3,354)	(3,584)
Fair value of scheme assets	**4,149**	4,222	3,542	3,881
Surplus restriction	**(9)**	–	–	–
Retirement benefit (deficit)/surplus	**(223)**	(462)	188	297
Experience gains/(losses) on scheme liabilities	**(67)**	48	(21)	3
Experience gains/(losses) on scheme assets	**81**	530	(560)	(47)

The principal actuarial assumptions at the year end were:

	2011		2010	
	UK	**Non-UK**	UK	Non-UK
Discount rate for defined benefit scheme liabilities	**5.6%**	**5.0% to 6.2%**	5.5%	4.0% to 4.6%
Inflation	**3.5%**	**1.8% to 3.5%**	3.6%	2.0% to 4.3%
Rate of general long term increase in salaries	**n/a**	**2.0% to 2.8%**	4.6%	3.0% to 3.8%
Rate of increase to pensions in payment	**3.3%**	**1.8% to 3.3%**	3.5%	2.5% to 4.3%

The expected returns on defined benefit scheme assets for the following financial year are:

	2011 UK	2010 UK
Bonds	**4.4%**	4.7%
Equities	**7.9%**	7.9%
Property	**7.4%**	7.7%
Other	**3.7%**	4.3%

The expected return on non-UK defined benefit scheme assets ranged from 3.7% to 7.7% (2010: 5.0% to 6.0%). The expected rate of return on defined benefit scheme assets has been determined with reference to historic and projected market returns. The actual return on defined benefit scheme assets was a £286 million gain (2010: £737 million gain).

The mortality assumptions adopted as at 31 March 2011 have been set to reflect the Company's best estimate view of life expectancies of members for each individual pension arrangement. These mortality assumptions vary by arrangement, each assumption reflecting the characteristics of the membership of that arrangement. In terms of the Boots Pension Scheme, which is the Group's largest defined benefit pension scheme, a detailed analysis of the current mortality rates experienced in the scheme was carried out during the year as part of the ongoing triennial funding valuation. These mortality rates were adopted for the 31 March 2011 IAS 19 Employee Benefits accounting valuation of this scheme.

The projected life expectancy from the age of 60 years was:

	2011 Currently aged 45	**2011 Currently aged 60**	2010 Currently aged 45	2010 Currently aged 60
Male	**27.6**	**26.5**	26.8	25.8
Female	**29.3**	**28.2**	28.6	27.7

A sensitivity analysis on the principal assumptions used to measure the scheme liabilities at the year end is:

	Change in assumption	**Impact on scheme liabilities**
Discount rate	**Increase by 0.25%**	**Decrease by £183 million**
Rate of inflation	**Increase by 0.25%**	**Increase by £192 million**
Assumed life expectancy at age 60 (rate of mortality)	**Increase by 1 year**	**Increase by £116 million**

Defined contribution schemes

The Group operates a number of defined contribution schemes. During the year, in respect of continuing operations, the Group contributed £65 million (2010: £18 million) into these schemes.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

37 Related parties

Parent and ultimate controlling party

At 31 March 2011, AB Acquisitions Holdings Limited was the immediate and ultimate parent company of Alliance Boots GmbH.

AB Acquisitions Holdings Limited is incorporated in Gibraltar, and its registered office is 57/63 Line Wall Road, Gibraltar. AB Acquisitions Holdings Limited is jointly controlled by Alliance Santé Participations S.A., and by certain funds advised by Kohlberg Kravis Roberts & Co. L.P.. S. Pessina and O. Barra, who are Directors of Alliance Boots GmbH, are also directors of Alliance Santé Participations S.A., which is ultimately owned by a family trust.

Key management personnel

Key management personnel comprise the Directors of Alliance Boots GmbH and, in addition, W. Zettel through his directorship of AB Acquisitions Holdings Limited. The Directors of Alliance Boots GmbH were:

S. Pessina* (Executive Chairman)
G.R. Fairweather*
M. Pagni*
O. Barra*
A. Gourlay*
D. Murphy
M. Caprioli
S. D'Angelo
N.C.E. Land
C. Britton
A. De Nunzio
E. Jornod
A. Hornby* (resigned 25 March 2011)

* executive Directors

There was no change in Directors since the year end date.

Key management personnel remuneration

The remuneration of the key management personnel of the Group comprised:

	2011 £million	2010 £million
Short term employee benefits	**6**	7
Post-employment benefits	**1**	1

Other transactions with key management personnel

Together with other senior managers, executive Directors participate in a management equity plan which is designed to enable them, as investors, to share in the future financial success of the Group through an investment of personal capital. To assist participation, the Group provides loans under commercial terms, and at 31 March 2011 the loan amounts outstanding in respect of key management personnel were £0.3 million (2010: £1.3 million). The loans are repayable by June 2012.

During the year, S. Pessina received 237 shares (2010: 317 shares) in Galenica Ltd., an associate investment of the Group, in lieu of fees for his services as a director. At 31 March 2011, S. Pessina owned 1,051 shares (2010: 814 shares) in Galenica Ltd.. At 31 March 2011, E. Jornod owned 9,361 shares (2010: 10,919 shares) in Galenica Ltd. taken in lieu of fees and bonus for his services as a director and a conditional right to acquire 8,750 shares in 2012. On 1 January 2012, E. Jornod will receive 40,000 shares in Galenica Ltd. in lieu of director's fees for the period 1 January 2012 to 31 January 2016.

Key management personnel may purchase goods for personal and family use from the Health & Beauty Division businesses in the UK on the same terms and conditions as those available to all other UK employees of the Group.

Transactions with other related parties

As disclosed in the shareholder circular sent to the shareholders of Alliance Boots plc on 26 May 2007, Kohlberg Kravis Roberts & Co. L.P. and Alliance Santé Participations S.A. or their respective designees are each entitled to receive an annual monitoring fee. During the year, each party received £2.9 million (2010: £2.8 million), of which £0.8 million was outstanding to each at 31 March 2011 (2010: £0.7 million outstanding to Alliance Santé Participations S.A.).

In the prior year, £1.6 million was paid to Capstone Europe Limited, an entity significantly influenced by Kohlberg Kravis Roberts & Co. L.P., for management consultancy services. Of this amount, £0.6 million (2010: £1.0 million) was expensed during the year.

The Group, in its normal course of business, transacts with other entities controlled or significantly influenced by Kohlberg Kravis Roberts & Co. L.P.. All transactions are carried out on an arm's length basis.

During the year, the Group paid £0.2 million (2010: £0.2 million) for accounting services to an entity which is considered to be a related party by virtue of it being jointly controlled by a director of AB Acquisitions Holdings Limited. The transaction was on an arm's length basis.

During the year, the Group invested £18.6 million (2010: £36.4 million) in profit participating notes issued by Walvis Limited and, net of divestments, £99.9 million in profit participating notes issued by Walvis 2 Limited. Walvis Limited and Walvis 2 Limited are both companies controlled by Dascoli Finance S.A.. S. Pessina is a director of Dascoli Finance S.A.. These related party companies acquired £189.5 million (2010: £55.9 million) of the principal of the Group's subordinated and senior facilities bank loans, with the Group then acquiring £20.6 million of these from Walvis 2 Limited. During the year, £8.8 million (2010: £0.8 million) of finance income was recorded in the income statement as receivable from these related party companies, and the amount receivable at 31 March 2011 was £9.6 million (2010: £0.8 million). The carrying value of outstanding profit participating notes at 31 March 2011 was £163 million (2010: £37 million).

At 31 March 2011, AF Lux Finance S.A. owned £30 million (2010: £30 million) of the principal of the Group's senior facilities bank loans. S. Pessina is a director of AF Lux Finance S.A.. During the year, £1.1 million (2010: £1.1 million) of finance costs were recorded in the income statement as payable to AF Lux Finance S.A., of which £nil (2010: £0.1 million) was outstanding at 31 March 2011.

During the year, loans advanced under revolving credit facilities to AB Acquisitions Holdings Limited and a fellow subsidiary of AB Acquisitions Holdings Limited were repaid in full. The loan amounts outstanding at the beginning of the year under these facilities were £1.4 million and £0.9 million respectively, and prior to being repaid in full, a further £4.0 million was advanced to the fellow subsidiary undertaking of AB Acquisitions Holdings Limited. The facilities were provided on arm's length bases.

During the year, £25.0 million was advanced to a fellow subsidiary of AB Acquisitions Holdings Limited under an on demand, committed loan facility. This was repaid in full during the year.

During the year, £25.0 million was advanced to a fellow subsidiary of AB Acquisitions Holdings Limited under a committed loan facility. Finance income of £0.4 million was recorded in the income statement as receivable from the fellow subsidiary undertaking, of which £0.4 million was receivable at 31 March 2011. The loan is on an arm's length basis and repayable in 2015.

In the prior year, a fellow subsidiary of AB Acquisitions Holdings Limited provided the Group with a five year, fixed rate loan of £75 million. During the current year, £66.4 million was repaid. Finance costs of £2.7 million (2010: £5.9 million) were recorded in the income statement as payable to the fellow subsidiary, and cumulative interest of £8.6 million (2010: £5.9 million) was outstanding at 31 March 2011. The loan is on an arm's length basis and repayable in 2014.

On 31 July 2010, the Group sold 51% of its interest in its Italian subsidiary, Alliance Healthcare Italia S.p.a., to a fellow subsidiary of AB Acquisitions Holdings Limited, the immediate and ultimate parent company of Alliance Boots GmbH. The consideration received on the disposal was £62 million.

Notes to the consolidated financial statements continued

for the year ended 31 March 2011

37 Related parties continued

Subsidiary undertakings

The Group's principal subsidiary undertakings, all of which are indirectly held, were:

	Percentage held by subsidiary undertakings	Country of operation	Country of incorporation	Main activity
Health & Beauty Division				
Boots UK Limited	100	UK	England and Wales	Pharmacy-led health and beauty retailing
Boots Opticians Professional Services Limited	58.0	UK	England and Wales	Optical practices
Boots Norge A.S.	100	Norway	Norway	Pharmacy-led health and beauty retailing
Boots Retail (Ireland) Limited	100	Republic of Ireland	Republic of Ireland	Pharmacy-led health and beauty retailing
Alliance Apotheek B.V.	100	The Netherlands	The Netherlands	Retail pharmacy operator
Boots Retail (Thailand) Limited	100	Thailand	Thailand	Pharmacy-led health and beauty retailing
Pharmaceutical Wholesale Division				
Alliance Healthcare France S.A.	99.8	France	France	Pharmaceutical wholesaling and distribution
Alliance Healthcare (Distribution) Limited	100	UK	England and Wales	Pharmaceutical wholesaling and distribution
Hedef Ecza Deposu Ticaret A.S.	70.0	Turkey	Turkey	Pharmaceutical wholesaling and distribution
Alliance Healthcare España S.A.	99.2	Spain	Spain	Pharmaceutical wholesaling and distribution
Andreae-Noris Zahn AG	81.9	Germany	Germany	Pharmaceutical wholesaling and distribution
Megapharm GmbH Pharmazeutische Erzeugnisse	100	Germany	Germany	Specialty pharmaceutical wholesaling
ZAO Apteka Holding	96.0	Russia	Russia	Pharmaceutical wholesaling and distribution
Alliance Healthcare B.V.	100	The Netherlands	The Netherlands	Pharmaceutical wholesaling and distribution
Alliance Healthcare s.r.o.	97.1	Czech Republic	Czech Republic	Pharmaceutical wholesaling and distribution
Alliance Healthcare Norge A.S.	100	Norway	Norway	Pharmaceutical wholesaling and distribution
United Company of Pharmacists S.A.E.	50.0	Egypt	Egypt	Pharmaceutical wholesaling and distribution
Farmexpert DCI S.A.	60.0	Romania	Romania	Pharmaceutical wholesaling and distribution
Armila UAB	99.0	Lithuania	Lithuania	Pharmaceutical wholesaling and distribution
Contract Manufacturing				
BCM Limited	100	UK	England and Wales	Contract manufacturing

Associates and joint venture

The Group's principal associates and joint venture were:

	Percentage interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Associates				
Galenica Ltd.[1]	25.5	Switzerland	Switzerland	Pharmaceutical manufacturing, pharmaceutical wholesaling and distribution and retail pharmacy operator
Alliance Healthcare Italia S.p.a.	49.0	Italy	Italy	Pharmaceutical wholesaling and distribution and retail pharmacy operator
Alliance Healthcare S.A.	49.0	Portugal	Portugal	Pharmaceutical wholesaling and distribution
Hydra Pharm SPA	30.0	Algeria	Algeria	Pharmaceutical wholesaling and distribution
Oktal Pharma d.o.o.	49.0	Croatia	Croatia	Pharmaceutical wholesaling and distribution
Joint venture				
Guangzhou Pharmaceuticals Corporation	50.0	China	China	Pharmaceutical wholesaling and distribution

1 All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

The accounting reference dates of the principal associates and joint venture are 31 December with the exception of Alliance Healthcare Italia S.p.a. whose accounting reference date is 31 March.

Transactions with associated undertakings and joint ventures, all of which are carried out on an arm's length basis were:

	2011 £million	2010 £million
Revenue in year	**4**	9
Purchases in year	**(13)**	(3)
Amounts due from	**1**	1
Amounts due to	**(2)**	–

38 Accounting estimates and judgements

In preparing the consolidated financial statements, the management of Alliance Boots GmbH is required to make estimates and judgements. The matters described below are considered to be the most important in understanding the judgements that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial position and cash flows. The Group accounting policies are described in note 2.

Fair value measurement on a business combination

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification and valuation of intangible assets which require the estimation of future cash flows and the selection of a suitable discount rate.

Impairment of intangible assets, including goodwill, and tangible assets

Following the acquisition of Alliance Boots plc in 2007/08, the Group has significant carrying values of goodwill and intangible assets, such as pharmacy licences, brands and customer relationships. Goodwill and other indefinite life intangibles, such as pharmacy licences and certain brands are held at cost and tested annually for impairment. Amortised intangible and tangible assets are tested for impairment where there are indications of impairment. The impairment tests involve estimation of future cash flows and the selection of suitable discount rates. These require an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated (note 15).

Measurement of defined benefit scheme liabilities

The Group recognises and measures costs relating to defined benefit schemes in accordance with IAS 19, Employee Benefits. In applying IAS 19, the costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of significant judgements in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, and the selection of suitable discount rates. Further detail is provided in note 36.

Revenue

In the Health & Beauty Division, reimbursement of dispensing revenue is initially estimated because the actual reimbursement is often not known until after the month of sale.

In respect of loyalty schemes, principally the Boots Advantage Card, liabilities are recorded to estimate the proportion of the points issued which will be redeemed by customers.

Supplier rebates

The recognition of supplier rebates may require estimation when the reporting year end is not coterminous with the end of the predetermined period over which the rebate is earned.

Provisions

Provisions are recognised in the year when it becomes probable that there will be a future outflow of funds resulting from past operations or events which can be reasonably estimated. The timing of recognition requires the application of judgement to existing facts and circumstances, which can be subject to change.

Estimates of the amounts of provisions recognised are based on current legal and constructive requirements, technology and price levels. Actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, and therefore the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

39 Risk assessment

The Group's executive Directors play the leading role in internal controls, monitoring the overall risk profile and regularly reporting to the Board through the audit committee. In addition, the Board through the executive Directors is responsible for determining clear policies as to what the Group considers to be acceptable levels of risk. These policies seek to enable people throughout the Group to use their expertise to identify risks that could undermine performance and to devise ways of bringing them within acceptable levels. Where risks are identified that are not acceptable, action plans are developed to mitigate them with clear allocation of responsibilities and timescales for completion, which ensures that progress towards implementing these plans is monitored and reported upon.

Further detail on the risks faced by the Group and the internal control process are set out on pages 44 and 45.

40 Events after the year end

On 6 May 2011, the Group acquired a further 10% stake in Hedef Alliance Holding A.S., taking its total interest to 80%. There have been no other material events subsequent to the year end.

Principal businesses, associates and joint ventures

Health & Beauty Division

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NG2 3AA
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Tel: +44 (0)115 950 6111
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Web: www.boots-uk.com

Boots Opticians
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Tel: +44 (0)115 950 6111
Fax: +44 (0)115 959 5525
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Boots Norge
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Tel: +353 (0)1 778 0000
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Web: www.boots.ie

Alliance Apotheek
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In addition Boots has a sales office in the United States of America and a franchise office in Sweden.

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5201 AL's – Hertogenbosch
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Web: www.alliance-healthcare.cz

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Fax: +202 3631 523

Farmexpert
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Nr. 10H, Sector 6
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Fax: +40 21 407 77 12
Web: www.farmexpert.ro

Armila UAB
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LT – 08303
Vilnius
Lithuania
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Fax: +370 5 2737 381
Web: www.armila.com

Principal businesses, associates and joint ventures continued

Contract manufacturing

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Thane Road
Nottingham
NG90 2PR
United Kingdom
Tel: +44 (0)115 968 6648
Fax: +44 (0)115 949 8410
Web: www.bcm-manufacturing.com

BCM has three manufacturing facilities in the UK, France and Germany.

Associates and joint ventures

Galenica
P.O. Box
Untermattweg 8
CH-3001 Bern
Switzerland
Tel: +41 58 852 85 17
Fax: +41 58 852 85 58
Web: www.galenica.com

Guangzhou Pharmaceuticals Corporation
No. 97-103 Datong Road
Liwan District
Guangzhou 510410
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Fax: +86 20 8183 9341
Web: www.gzmpc.com

Alliance Healthcare Italia
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Web: www.alliance-healthcare.it

Alliance Healthcare Portugal
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Fax: +351 22 617 80 23
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Hydra Pharm
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Oktal Pharma
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10020 Zagreb
Croatia
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Fax: +385 1 6595 701
Web: www.oktal-pharma.hr

Oktal Pharma also trades in Bosnia Herzegovina, Serbia and Slovenia

In addition Alliance Boots has a buying office in Hong Kong.

Glossary of key terms

Constant currency
Exchange rates applicable for the financial information for the year ended 31 March 2010.

EBITDA
Trading profit before underlying depreciation and amortisation.

Exceptional items
Items classified by Alliance Boots as exceptional in nature. These are not regarded as forming part of the underlying trading activities of the Group and so merit separate presentation to allow stakeholders to understand the elements of financial performance and assess trends in financial performance.

IAS 39 timing differences
Derivative financial instruments are used to hedge interest rate and currency exposures. IAS 39 dictates whether changes in the fair value of these instruments can be matched in the income statement by changes in the fair value of the item being hedged. Where they cannot be matched, or do not fully match, the unmatched amount represents a timing difference that will reverse over the life of the financial instruments.

Interest cover
Trading profit divided by underlying net finance costs.

Like for like revenue
Like for like revenue on a constant currency basis compared to the comparable period in the previous year.

Net borrowings
Cash and cash equivalents, restricted cash, derivative financial instruments and borrowings net of unamortised prepaid financing fees.

Net finance costs
Finance costs net of finance income.

Restricted cash
Cash which is restricted for specific purposes and so is not available for the use of the Group in its day to day operations.

Share of underlying post tax earnings of associates and joint ventures
Share of post tax earnings of associates and joint ventures before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Timing differences within net finance costs
IAS 39 timing differences and the unwind of the discount on obligations to non controlling interests.

Trading margin
Trading profit expressed as a percentage of revenue.

Trading profit
Profit from operations before amortisation of customer relationships and brands, exceptional items and share of post tax earnings of associates and joint ventures.

Underlying depreciation and amortisation
Depreciation and amortisation adjusted to exclude amortisation of customer relationships and brands and depreciation and amortisation within exceptional items.

Underlying net finance costs
Net finance costs adjusted to exclude exceptional items and timing differences within net finance costs.

Underlying profit
Profit for the year before amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and related tax.

Underlying tax charge/credit
Tax charge/credit adjusted to exclude tax on amortisation of customer relationships and brands, exceptional items, timing differences within net finance costs and exceptional tax.

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